A PIVOTAL MOMENT FOR PESM

How process automation can reduce risk and improve efficiency

TAX SYSTEMS

INTRODUCTION

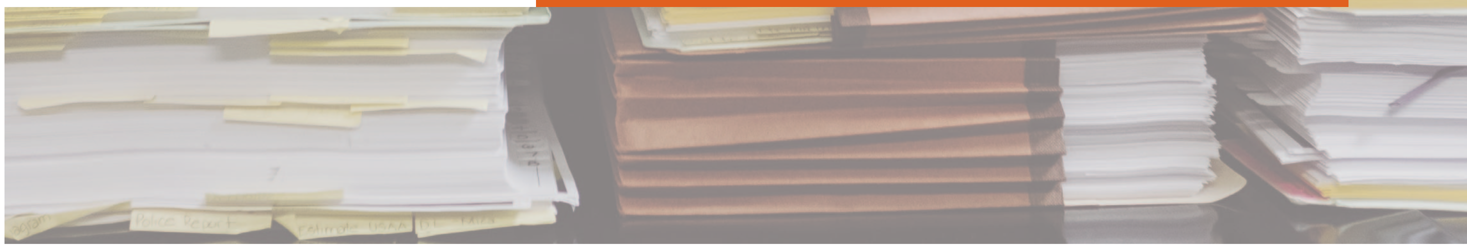
Partial Exemption Special Method (PESM) is notoriously complex. Any business instructed to or opting to use this method must consistently justify it to HMRC by outlining the criteria it wishes to use and why this represents a fairer and more accurate way of calculating recoverable input VAT. It then also needs to demonstrate its compliance with that agreed method.

Gaining total control and visibility over the PESM compliance process is not without its fair share of challenges. PESM calculations see costs allocated against multiple sectors, with specific transactions blocked/excluded, and adjustments made, before it's possible to identify the amount of VAT that can be recovered. The process is time consuming, can see recoverable VAT missed and, in the event the business gets it wrong, can trigger an unexpected investigation by HMRC.

In this whitepaper, we explore how organisations could benefit from automating their PESM process, the changing regulatory landscape and the need to mitigate the risk of non-compliance. We look at the strengths and weaknesses of existing technologies and how systems are now evolving and improving. Plus we share the experiences of organisations in different sectors that have been able to simplify the process, deriving efficiency and accuracy gains.

PESM CAN 'INVOLVE A SIGNIFICANT AMOUNT OF ADMINISTRATION FOR BUSINESSES, WITH COMPLEX CALCULATIONS OFTEN BEING REQUIRED FOR SOME BUSINESSES TO DETERMINE THE AMOUNT OF INPUT TAX THAT THEY ARE ENTITLED TO RECOVER'.

HMRC: VAT NOTICE 706



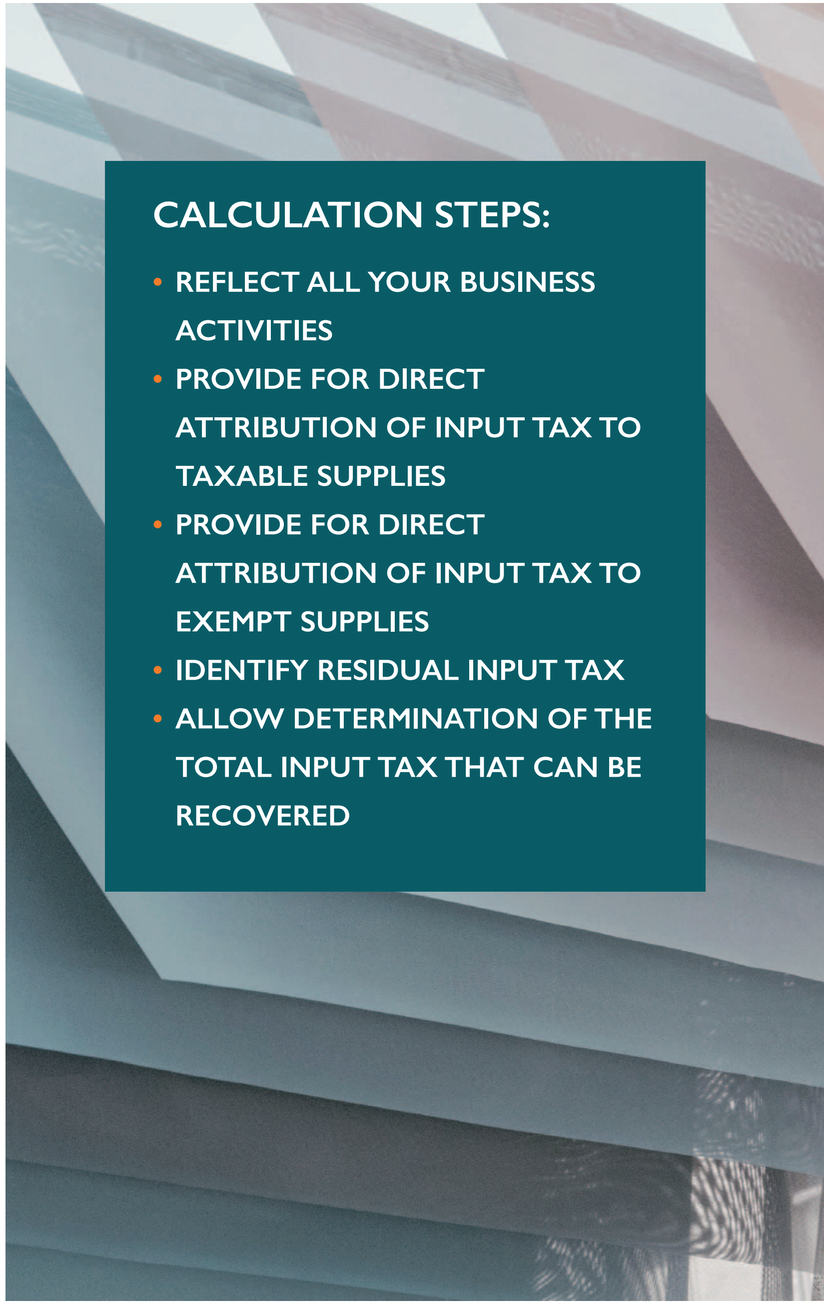
PESM

A Partial Exemption Special Method (PESM) is defined by HMRC as 'any method other than the standard method (with any appropriate override) that enables a partly exempt business to determine the amount of input tax it can deduct'. This method is chosen where it provides a fairer apportionment of residual input VAT using criteria agreed upon in advance with HMRC. This criteria needs to be deemed 'fair and reasonable' and is unique to the individual business.

A business using a PESM applies direct attribution, in keeping with the standard method, but the apportionment of residual input tax will differ, while the need to perform an annual adjustment still applies.

A PESM 'can be tailored to suit the particular circumstances of a business and therefore more accurately determines the correct amount of input tax that is deductible'. It differs from the standard method in that it's possible to determine the percentage recovery rate using other methods of apportionment.

A PESM can also allow different types of calculation to apply to different business sectors.



CALCULATION STEPS:

- REFLECT ALL YOUR BUSINESS ACTIVITIES
- PROVIDE FOR DIRECT ATTRIBUTION OF INPUT TAX TO TAXABLE SUPPLIES
- PROVIDE FOR DIRECT ATTRIBUTION OF INPUT TAX TO EXEMPT SUPPLIES
- IDENTIFY RESIDUAL INPUT TAX
- ALLOW DETERMINATION OF THE TOTAL INPUT TAX THAT CAN BE RECOVERED

CHALLENGES ASSOCIATED WITH PESM

A PESM allows the business to tailor how they recover their input VAT but it can be complex to implement and manage. The process often involves tens of thousands of transactions, multiple data sources, dozens of spreadsheets while manual aggregation and complex calculations make the process time intensive, costly and prone to error. Get it wrong and the organisation risks missing out on reclaiming the right amount of VAT, becoming non-compliant and receiving unwanted attention from HMRC.

CHALLENGE 1: DAY-TO-DAY VAT

In common with any VAT calculation, the manual processes that underpin PESM exacerbate the risk of non-compliance. Manual processes can be detrimental in three ways:

a) Time – VAT is inordinately time consuming. Recent figures suggest that a fifth of businesses spend over 50 days a year identifying, collating and inputting VAT data in a bid to avoid error. Typically, a team that manages a PESM can be anywhere between 1-5 people, therefore a resource intensive process falls on very few shoulders.

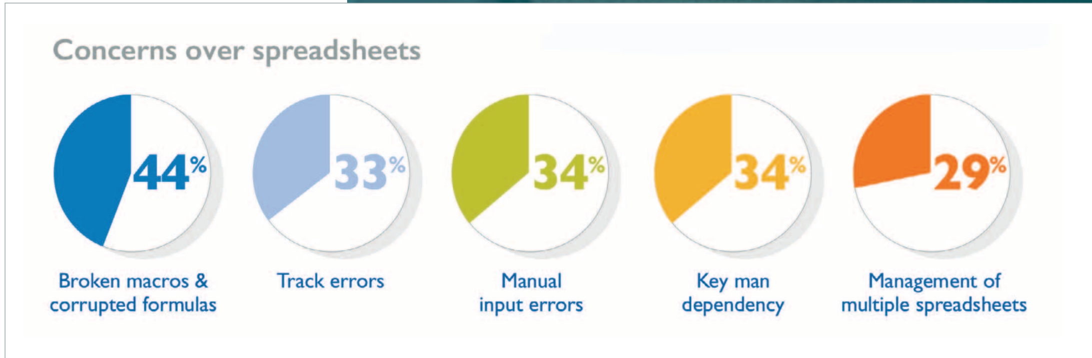
b) Error – Small mistakes can result in huge inaccuracies and put businesses at ever greater risk. An error rate of 1% at a large business could equate to several hundred thousand pounds. If the source data is incorrect, the submission will also be incorrect, thus attracting the attention of HMRC.

c) Spreadsheet Dependency – The predominant way of managing a PESM is by using spreadsheets. However, 88% are estimated to contain errors due to incorrect formulas, broken macros or human input errors. Highlighting anomalies and potential errors through automation can substantially improve the overall accuracy of submissions.

Together, these issues impact confidence in the overall process, with 65% of businesses uncertain about the accuracy of their figures. Should the Return prove incorrect, the business could be subjected to an unwanted audit, resulting in potential delays in the recovery of input VAT.

'TOO MANY TAX PROFESSIONALS STILL BELIEVE THAT THEIR JOB IS ABOUT GRAPPLING WITH COMPLEX TECHNICAL ISSUES. THE REALITY WILL BE VERY DIFFERENT. IN YEARS TO COME THE MOST IMPORTANT ISSUE WILL BE TO GET THINGS 100% RIGHT, AND TO ANALYSE THE DATA AND PROVE IT IS RIGHT.'

CHRIS DOWNING, PARTNER IN TAX AT KPMG



CHALLENGE 2: NEW FACTORS AFFECTING REGULATION

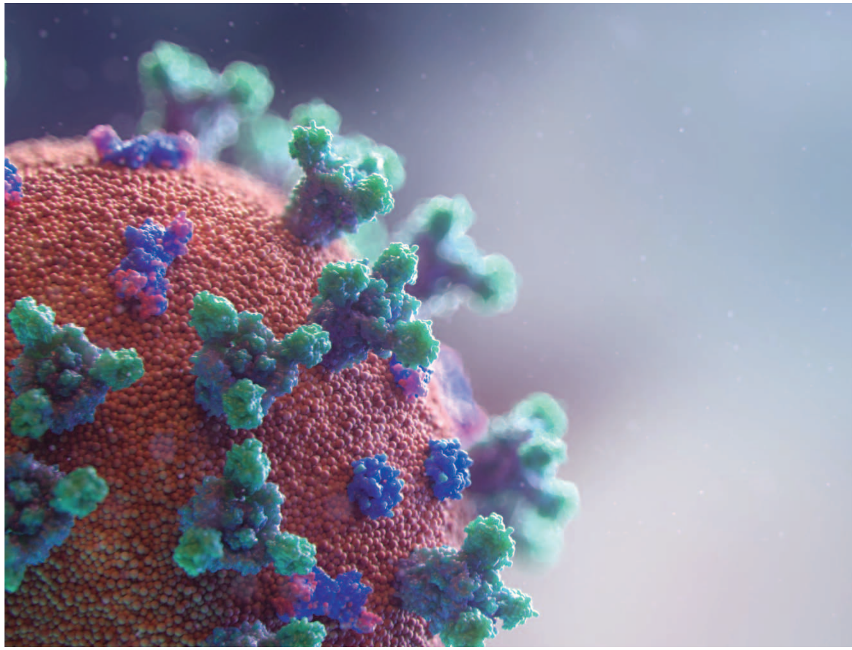
COVID-19

Regulatory pressure is increasing due to two primary factors: the pandemic and the tax gap.

Prior to the COVID-19 crisis, HMRC was promised 1,300 additional compliance officers and new technology to help tackle the 5.6% tax gap. The COVID-19 crisis is likely to intensify that focus on compliance because the tax authority will need to improve tax collection to help address the growing national deficit.

HMRC has already begun transitioning from a support to a compliance stance, instigating investigations that were put on hold, and is expected to push ahead with the introduction of the new points-based VAT penalty system in 2021.

The COVID-19 crisis has also impacted working practices. It's shone a spotlight on the need for reliable data, systems and processes that enable people to work remotely. This is helping to drive the automation of the VAT process, resulting in a move away from spreadsheets.



PESM REFORM

In July 2019 HMRC issued a call for evidence in a bid to reduce the complexity of the PESM, the results of which have yet to be published. Proposals put forward included abolishing the approvals process. If this does happen, businesses are going to need to prove their PESM process is 'fair and reasonable' on an ongoing basis.

The abolition may also make PESM more dynamic, allowing the business to change the PESM criteria as its business changes without the need to reapply to HMRC. This will allow changes to be made much more readily, making it desirable for the finance team to be able to implement changes themselves.

The implications of both of these are that businesses will want to put in place an automated solution that can both ensure compliance and implement changes quickly.

CHALLENGE 3: MAKING TAX DIGITAL: DIGITAL LINKS

Under the digital links mandate of Making Tax Digital (MTD) businesses are required to link their digital records to their digital submission. From April 2021 businesses cannot cut and paste data. This has led to confusion over how data can be manipulated to perform PESM calculations.

Whilst HMRC has confirmed it is possible to dip out of the MTD for VAT process for now, perform the PESM calculation in a spreadsheet, and then factor it back into the Returns software, this is not regarded best practice. This non-linear approach could see errors introduced, adjustments will not be time stamped or calculations tracked back to the transaction level and there will be no digital audit trail.

Instead, the tax authority advocates using the compliance software to do the necessary computations, saying that 'using software for all your calculations will reduce the risk of errors in your returns' and is therefore preferable.

Many businesses already recognise that, in the event of an audit, they will need to demonstrate digital links compliance and so are voluntarily automating their PESM process. It is commonly assumed that MTD will eventually encompass PESM. Indeed, in its ongoing consultation, HMRC noted that MTD is expected to significantly help with the simplification of PESM and that if automation occurs organically this may reduce the need for further regulation.

'DURING A SURVEY CONDUCTED IN MARCH 2020, WE FOUND THAT 78% OF BUSINESSES WERE CONCERNED ABOUT THE MANAGEMENT AND CALCULATIONS OF ADJUSTMENTS UNDER DIGITAL LINKS, INCLUDING FUEL SCALE CHARGES, PARTIAL EXEMPTIONS AND ERROR CORRECTIONS.'

ANDY MILLS, COMMERCIAL DIRECTOR TAX SYSTEMS

CHALLENGE 4: PESM'S UNIQUE CHALLENGES

Organisations with a PESM have the most in-depth VAT reporting requirements of any business and so are subject to a range of unique reporting challenges.

1. BESPOKE RECOVERY METRICS

There are a variety of ways businesses can request to calculate the recoverable percentage of VAT on their residual input tax. While some are potentially static, such as floor area, others may fluctuate, such as the number of transactions or staff headcount. Some may also apply to more than one sector/business unit. This makes it resource intensive to maintain, because changes could impact multiple sectors within the business.

COMMON RECOVERY METHODS:

- **Sales values**
- **Numbers of transactions**
- **Staff time or numbers**
- **Purchases values**
- **Floor area**
- **Costs allocations**
- **Management accounts**

2. SECTORISED METHOD

The 'sectorised' method allows separate recovery rates to be calculated for each sector/business unit and is typically used by large and complex businesses or those with VAT Groups.

Partial exemption sectors can arise naturally from the way businesses organise themselves, for example, if it has discrete areas, activities, or even accounting centres which are typical of large businesses or those that consist of a VAT group of separate businesses. If each sector has its own cost centre, then it becomes relatively easy to allocate appropriate costs to it.

Where things get difficult is when there are dozens or even hundreds of cost centres that span a number of sectors, entities, sub entities or specific business activities. HMRC cautions that it may also be necessary to create additional sectors for 'distortive transactions' or to 'amend attributions where they may not properly reflect use'.

SECTORISED ALLOCATION DEFINED:

Allocation of residual input tax to different business activities and apportioning each allocation separately.

A recovery method is then applied to each one, in order to calculate the taxable element.

POSITIVES	NEGATIVES
Improves accuracy	Increases complexity
Ensures fair recovery of input tax demonstrable by sector	Costs allocated must relate exclusively to costs within that sector
Allows creation of separate sectors for new business activities created through the use of a PESM	Accounting system must be capable of dealing with numerous allocations

3. COST ALLOCATION MAPPING

Allocation is the means by which residual input tax is distributed to different sectors within the PESM agreement. Typically, costs are attached to a cost centre, which is attached to a business activity, which in turn is mapped to a sector. Allocation may follow existing cost-accounting mechanisms, but it can become incredibly complex if a cost centre is mapped to more than one sector.

The chief dilemma is how to come up with a mechanism to allocate these costs and apply the right percentage in order to recover the correct amount of VAT.

Granular reporting is required to demonstrate that the correct allocations have been made for each cost. Any changes during the period can affect numerous cost centres, meaning cost allocation must be continually monitored to keep on top of the calculations.

TIME SPENT ON TRANSACTIONAL COST ATTRIBUTION, AND ENSURING THAT THEY ARE CORRECTLY CLASSIFIED IN ACCORDANCE WITH THE AGREED PESM METHODOLOGY, IS TIME INTENSIVE AND INCREASES THE RISK OF ERROR.

4. SPREADSHEET MANAGEMENT

Allocation typically involves multiple data sources and spreadsheets. It is not uncommon for financial institutions to have over 20 data sources and a similar number of spreadsheets relating to percentage recovery calculations. This results in high levels of manually intensive data processing in order to ensure the resulting figures are correct.

Running extremely complex calculations across these linked spreadsheets can increase the risk of error exponentially. For example, teams may need to sift through source data files in order to count transactions, classify them, and then calculate a recovery percentage. This is likely to necessitate the addition of extra fields to spreadsheets, which in turn runs the risk of spreadsheet formula failure, jeopardising the accuracy of the calculations.

FINANCIAL SERVICES ORGANISATION – SPENDING 15 DAYS ANNUALLY ON SPREADSHEET INTEGRITY CHECKS, BEFORE REVIEWING SOURCE DATA...

ISSUE	PROBLEM	IMPACT
Management	Resource intensive	Typically, weeks could be spent checking these files and spreadsheet formulas before looking at the integrity of the underlying transactions
Key man dependency	Processes become person-specific	Key personnel will be responsible for managing these spreadsheets, which in itself can cause issues as some may implement the rules differently from others
Updates to business processes	Complex to implement	Keeping on top of any updates to ERP reports and cost centres is essential in order to maintain the accuracy of the end calculation. This is time intensive and can see errors quickly spiral out of control

5. PROVING COMPLIANCE

In its application to HMRC, a business will need to propose its PESM apportionment criteria, but the letter of approval it receives back from the tax authority may not detail how to implement the PESM in practice. This means it could be open to misinterpretation and error.

A business will need to be able to prove compliance by demonstrating that a number of critical activities have been completed during the compliance cycle, such as:

- Any changes, or additions, to cost centres or ERP reporting must be proactively updated and reflected in calculation algorithms.
- All transactions relating to input tax need to be accurately classified and allocated to their appropriate sectors prior to calculation.
- Certain transactions will need to be blocked from recoverable input VAT and excluded from the VAT calculation, e.g. entertainment expenses.
- Any definitions agreed with HMRC, such as 'What defines a transaction?' or 'What values are to be included within the recovery percentage calculation?' should be evidenced and accurately presented. As an example, interest on account could be seen as a single transaction (if calculated annually) or twelve individual transactions (if calculated monthly).

To demonstrate compliance, the business will need to be able to provide HMRC with an audit trail that shows how all of these processes have been followed, literally to the letter, and down to the transaction level.

6. ANNUAL ADJUSTMENTS

The annual adjustment also takes into account any changes in use/intended use to arrive at the input/output VAT calculations. Should the intended use change during the longer period, then a further adjustment is required which may necessitate clawback (repayment of input tax to HMRC) or payback (recovery of additional input tax). HMRC has stated that the need for adjustments associated with changes of intention is an area that is 'often overlooked' and an area where businesses could potentially incur or lose out on recoverable VAT.

USE CASE: FINANCIAL INSTITUTION

A large financial institution managing funds of £50bn+ uses a sectorised special method spanning 20 sectors. It employs six allocation steps, multiple spreadsheets (including one large central calculation spreadsheet), and reports on tens of thousands of transactions (accounts payable and receivable) per quarter.

- Standard costs were time consuming to re-apportion e.g. canteens are technically a general building expense, but activities and costs associated here need to be apportioned out to ensure that they maximise the recovery of related taxable activities.
- Third party software meant change management was onerous and expensive. Charges for adjustments to financial software resulted in five figure costs for even simple changes (e.g. ERP systems etc).
- Over 15 days a quarter were spent managing transaction allocations and ensuring that all line items were classified in accordance with the HMRC agreement.
- Blocking and excluding of transactions was also time intensive. In their latest reporting period, 35,000 transactions had to be manually filtered to identify 35 non-claimable items.
- The management team had concerns over how compliance with MTD Digital Links would be achieved in the future.

Automating this process is expected to dramatically reduce the time dedicated to checking calculations and allocation adjustments, as well as providing a digital audit trail that will prove compliance to HMRC.

7. MANAGING RISK

The complexities associated with PESM mean that it can often expose businesses to risk – of error, non-compliance, and even financial loss.

Identifying and allocating costs is where most of the errors tend to occur. Cost allocation is a laborious process and costs can often be incorrectly mapped. If cost apportionments are applied to the wrong sector, this could result in HMRC demanding to see a detailed breakdown, making it essential that costs can be tracked back to the transaction level.

Even small errors within the Return can be all that are needed to attract the attention of HMRC and trigger an audit (the assumption will be that there may be flaws in other calculations within the PESM). Serious or repeated miscalculations could threaten the viability of the PESM, which HMRC has the power to withdraw.

Another risk is that of lost revenue. The business may fail to recover all of the input VAT that it is entitled to, for example, or fail to carry out the annual adjustment correctly.

USE CASE: WHOLESALE SECTOR

A wholesaler performs multiple complex VAT calculations within spreadsheets. This is manually intensive, creating significant key person dependencies, and also makes it difficult to track the links between processes, calculations and outputs.

The business uses both Partial Exemption Standard and Special Methods, processing 2.4m transactions per quarter with 18 VAT reporting entities consolidated into two groups.

By mapping only the essential local source data to a digital compliance platform, the risk of error is reduced significantly. All calculations, adjustments and the production of VAT positions per entity (and group level consolidation) are executed and fully tracked automatically. The Financial Controller can then review and spot check any errors by entity as normal, with the final submission performed through the platform.

The original manual process saw between 35-40 days per quarter spent on the entire VAT process. The introduction of a digital compliance platform reduces this ***by up to 28 days (70%) per quarter***.

THE INTRODUCTION OF A DIGITAL COMPLIANCE PLATFORM REDUCES THE TIME SPENT ON THE ENTIRE VAT PROCESS **BY UP TO 28 DAYS (70%) PER QUARTER**.

CHALLENGES OF TECHNOLOGY USAGE TODAY

PESM is a natural contender for automation, however it is a challenge trying to find anything on the market today that can mirror the complexities of a PESM process. Mechanisms can be applied to identify, allocate, monitor and adjust the calculations involved but software calculations are still typically performed by systems that offer little flexibility and do not deliver efficiency gains or reduce risk. There are three common problems:

1) **PESM Replication** – replicating PESM processes using a software platform can carry the risk of any process errors being replicated too. These systems are often unable to identify anomalies, or opportunities for VAT recovery, due to the way they are configured.

2) **Support** – finance teams are given very little support on how to use the software. Teams often have to develop their own workarounds to problems and in many cases drift back to using spreadsheet-based processes because they don't feel comfortable using the software.

3) **Change Management** – when third-party software is used to automate PESM and changes are required between reporting periods (e.g. updating ERP reporting, changes to cost centres or/and business activities), external expertise is often required and this can be very expensive.

> 'THE TAX CODE IS INCREASING IN SIZE AND COMPLEXITY EACH YEAR. SOFTWARE CAN CRUNCH THE NUMBERS: ADDING, SUBTRACTING, MULTIPLYING, AND DIVIDING. IT CANNOT REPLACE THE QUALIFIED TAX PROFESSIONAL'S ABILITY TO APPLY THE CORRECT LAW TO ONE'S TAX SITUATION.'
>
> **GERARD CANNITO, PRESIDENT OF THE NATP NATIONAL BOARD OF DIRECTORS**

HOW TECHNOLOGY IS EVOLVING

The nuances of PESM mean that the processes used to arrive at the final recovery percentage will differ from business to business. Therefore, any technical solution must be able to harmonise human-evolved processes with automation.

In recent years there has been a move away from localised spreadsheets towards centralised cloud-based systems. These provide the capabilities needed to map data, allocate costs, perform calculations and execute the necessary adjustments to create the Return.

Moving forward, the goal is to reduce the amount of manual human input as far as possible to make the process more accurate, efficient and to mitigate risk.

To achieve this, systems need to be intuitive to use (so that users can manage them independently) and flexible enough to accommodate the complexities of PESM.

Tax teams accept that automation will happen and is beneficial. Gartner estimates individual accounting team members could save over 600 hours of avoidable rework per year. But although technology can help in some areas, there's no substitute for human expertise when it comes to understanding tax rules.

AUTOMATING PESM

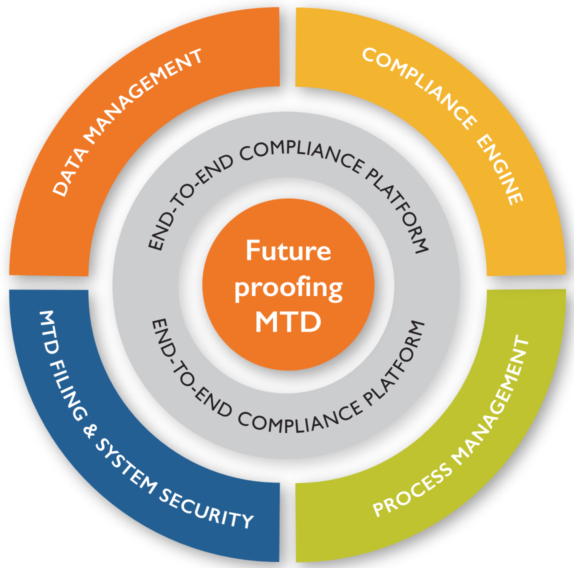
Compliance software and process automation is not a panacea for all tax problems, however dedicated technology can help in a number of ways:

- **Proving Compliance** – software can help to evidence the presence of digital links to ensure compliance with the next stage of MTD. For example, an automated, digital audit trail can demonstrate connectivity to HMRC between calculations, adjustments and the underlying transactions themselves.
- **Accuracy** – Compliance platforms that mirror the architecture of a company's agreed PESM, thereby reducing dependency on legacy calculation spreadsheets, will help improve the accuracy of submissions as there is less scope to introduce human error.
- **Automated cost allocation** – using software generated templates, financial transactions can be mapped to the correct business activities with a greater degree of accuracy than by manual methods.
- **More efficient reviews** – visual checks, both pre- and post-calculation, can be more targeted, by using customisable searches and exception reporting.
- **Trend analysis** – data analytics within the software allows tax teams to compare and contrast historic returns, identify anomalies and potential errors as well as forecast future liabilities.
- **Change management** – changes to cost centres or ERP reporting can be updated in-house using software without the need to employ external support.

> COMPLIANCE SOFTWARE AND PROCESS AUTOMATION IS NOT A PANACEA FOR ALL TAX PROBLEMS BUT DEDICATED TECHNOLOGY CAN HELP IN A NUMBER OF WAYS.

PESM TECHNOLOGY INTO 2021

Automation of the PESM calculation, as part of a wider compliance initiative can help reduce risk and spreadsheet dependency and provide greater control and visibility. But how does it do this? Here we take a look at what the elements of a VAT and PESM compliance software solution should include.



WHAT IS A VAT COMPLIANCE PLATFORM?

A compliance platform provides end-to-end control over the preparation, calculation and management of the VAT Return and uses tax data analytics to help inform commercial decisions.

A compliance platform will commonly include four functional areas:

DATA MANAGEMENT

Conducts transaction file uploads, along with any prerequisite mapping and filtering. Occurs seamlessly before entering the compliance engine. Datasets are reviewed for errors and anomalies, using integrated data cleansing functionality.

COMPLIANCE & CALCULATIONS

Calculations and reports are produced, with any manual adjustments, group considerations or special treatments accounted for prior to calculation.

SYSTEM SECURITY

Provides a secure, resilient environment for HMRC compliant submissions – employing two factor authentication (2FA) for added security.

PROCESS MANAGEMENT

Role-based access, control authorisations and sign-off. Users can compare entity history and submission records, or review reporting and access analytics dashboards.

COMPLEX CALCULATIONS – PESM AUTOMATION

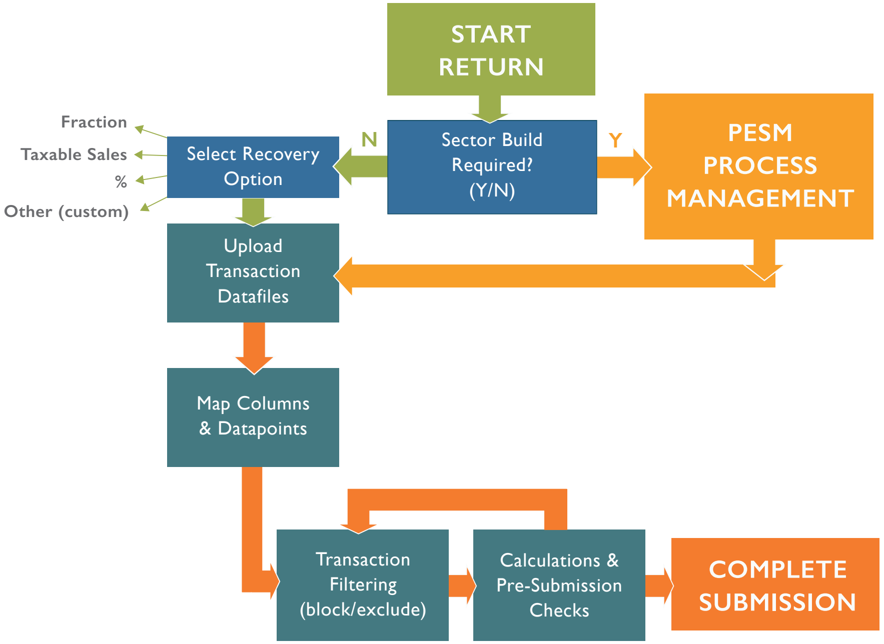
PESM functionality in compliance software must address a number of critical components within the process itself, including: sector identification, transactional cost attribution mapping, management of manual adjustments, data extraction, calculation management, systems checks & reporting. This creates a number of automation opportunities, including:

- **Data mapping** – Source data mapping from ERP or accountancy systems allows files to be scanned in order to ensure structures are consistent with the columns used for cost allocation, flagging anomalies as appropriate.
- **Data Tagging** – Accounts payable and accounts receivable data can look similar when generated from an ERP system. Tagging source data according to defined templates ensures that all transactions are correctly allocated to the relevant sectors. Configuration settings can then be saved to be used in future Returns.
- **Automating sector recovery and attribution processes –** Creating attribution rules and recovery percentages (%, fraction taxable sales, etc) required for each sector will ensure a more harmonised, accurate end-to-end process.
- **Cost Attribution** – Automatic mapping of costs to sectors will reduce the risk of manual error. This can be done using data headers (ie grouping, tax code, Net and VAT) against the columns in source data files. Filters can be added to ensure that the relevant data is included in the calculation for a particular sector or business activity.
- **Block and exclude filtering** – Transactions where VAT cannot be reclaimed should be automatically blocked or excluded. By applying identifiers to the filtering process, substantial time can be saved from manual searching and the reasons for exclusion can be specified in the resulting audit trail.
- **Calculations and checks** – Automatic adjustments allow multi-level allocations to be completed, meaning transaction movements between sectors will not require separate uploads after initial allocations have been completed. This provides traceable adjustments from one part of the business to another and, from a compliance perspective, provides granular detail supporting transaction allocations.
- **Manual adjustments and digital audit trail** – diagnostics allow users to make any manual adjustments, view blocked/excluded transactions and action any data errors highlighted during the calculation process. A full audit trail that supports all of these activities can be used to prove end-to-end compliance to HMRC.

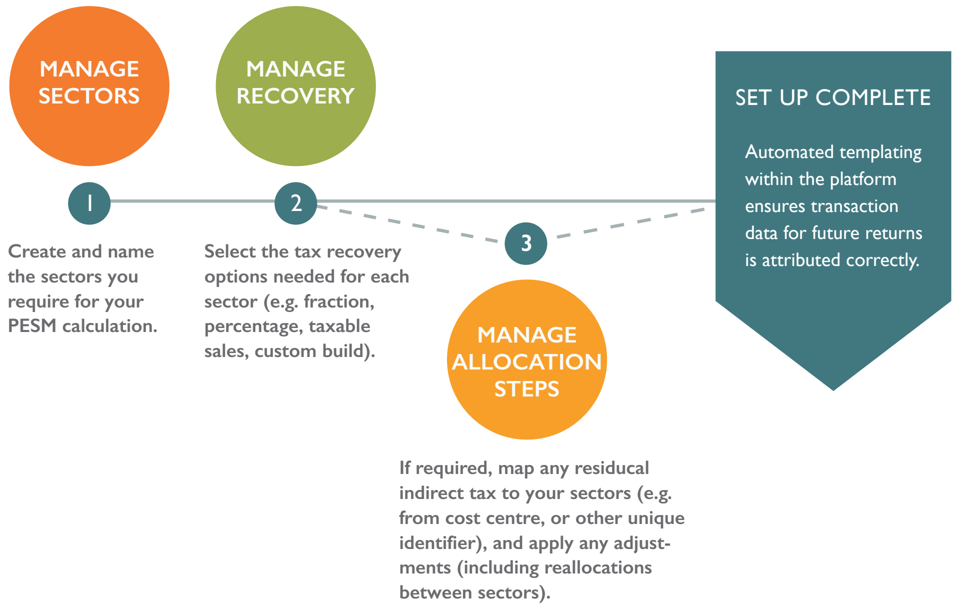
A FULL AUDIT TRAIL THAT SUPPORTS ALL OF THESE ACTIVITIES CAN BE USED TO PROVE END-TO-END COMPLIANCE TO HMRC.

DELIVERING PESM THROUGH COMPLIANCE SOFTWARE

A software platform should allow a seamless, one off implementation process to be completed in order to recreate and upload the PESM methodology. This is how it could work in practice:

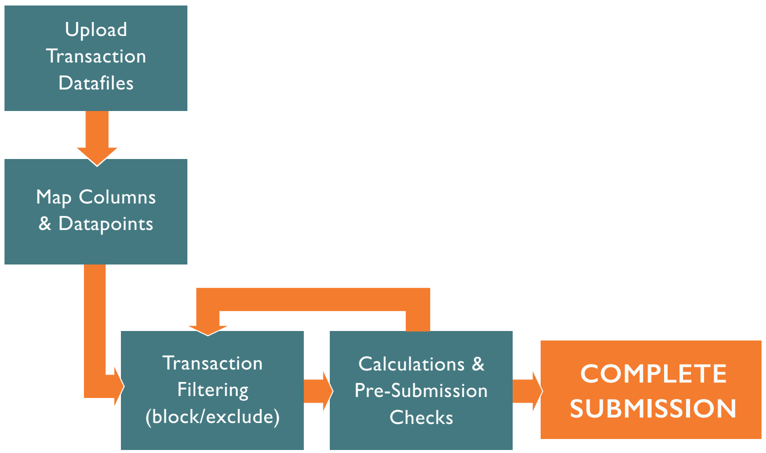


A simple three step set-up process, as depicted below, will ensure a frictionless transition from traditional, manual workflows to automation.



Once the PESM methodology has been defined in the software process, the steps required to complete the calculation, along with transaction allocations to the correct sectors, will no longer be as dependent on human derived, manual processes.

All that will be required for each subsequent reporting period is to have the source data files ready with the correct identifiers, then the software will take care of the allocations and calculation steps automatically:



ALL THAT WILL BE REQUIRED FOR EACH SUBSEQUENT REPORTING PERIOD IS TO HAVE THE SOURCE DATA FILES READY WITH THE CORRECT IDENTIFIERS.

BENEFITS OF PESM AUTOMATION:

- **Proves compliance for businesses operating an HMRC approved PESM scheme through automated, end-to-end digital audit trails**
- **Simplifies the completion of successive Returns using data tagging and templates**
- **Determines recovery percentages by calculating these direct from the source data**
- **Automatically allocates and filters transactions enabling end-to-end tracking and reducing manual processing errors**
- **Enables customisable searches and filters that can highlight anomalous transactions, or/and those that should be excluded from calculations**
- **Keeps PESM contained within the digital linking process ensuring adherence to best practice**
- **Reduces spreadsheet dependency and risk making the review process faster and more efficient**
- **Simplifies change management (e.g. remapping ERP reporting)**

CONCLUSION

Historically technology vendors have tried to automate the PESM process. They've sought to mirror the processes the business already has in place, providing spreadsheet-based solutions coupled with expensive advisory services.

From a compliance perspective, MTD is already digitalising the VAT process and it makes sense to extend this to include PESM. Keeping it all within a platform environment alongside other stages of the VAT process reduces risk and ensures the digital links remain unbroken.

Digital links also enable the business to drill back from the calculation to the source data, providing a digital audit trail that can be used to demonstrate how calculations were completed, and how they connect to both transactions and the agreed PESM methodology.

Yet most importantly of all, automating PESM alleviates the pain associated with this method. It takes a time intensive, largely manual process, predominantly carried out in spreadsheets, and streamlines it. In doing so it improves the efficiency of the end to end PESM process, dramatically cutting preparation and review times. By doing so, it also improves accuracy – mitigating the risk of error and unwanted HMRC scrutiny.

To find out how Tax Systems can help you automate your PESM process, contact us today at: **enquiries@taxsystems.com** or on **01784 777 700**.