

HOW TO PREPARE YOUR PRACTICE FOR MAKING TAX DIGITAL (MTD)

A six point checklist

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SOFTWARE

PREPARING YOUR PRACTICE FOR MTD

The journey ahead

HMRC's Making Tax Digital (MTD) programme is expected to be the biggest change to the UK's tax system since Pay-As-You-Earn (PAYE) was introduced in 1945. Over the next 3 or more years it will initiate a phased transition of businesses over to maintaining digital accounting records. Those businesses will be required to submit quarterly digital summaries of their income and expenditure to The Treasury.

The journey starts with Beta testing in April 2017, in preparation for MTD going live in April 2018 with the self-employed, partnerships and landlords with a turnover above the annual VAT threshold. After that all businesses (including limited companies) will need to comply with MTD's requirements by 2020. It is expected that this in turn will result in businesses being required to make quarterly tax payments during the next Parliament.

Despite being such a seismic change to the UK tax system, what MTD will actually look and feel like to businesses and their advisers is still largely unclear. This is because the digital teams in HMRC are still working on the technology and systems to make it a reality. Whilst many concerns have been raised about the proposed rollout schedule for MTD, confirmation in the March 2017 Budget has indicated it will happen.

Creating the MTD infrastructure

At BTCSoftware we are working very closely with HMRC to road-test the MTD technology as they create it. The minute they release an API (a necessary function, protocol or procedure to enable software to submit information and interact with businesses' MTD digital accounts) we immediately set to writing, testing and blending it seamlessly into our tax and accounting software. This ensures that our software solutions are MTD compliant as HMRC's new digital tax systems evolve.

There are, however, numerous fundamental APIs to be rolled out by HMRC before software developers such as us can road-test them. This doesn't give software developers or their clients – the UK's accounting and tax professionals - much preparation time. For those accountants and tax advisers in practice, many are rightly concerned because their clients will be turning to them for support in how best to navigate the new MTD requirements. For some of those client businesses MTD will be a major change to their operations and approach, and they will need accounting professionals to guide them very carefully through the process.

Building an MTD-robust practice

So with less than a year to go before the first tranche of businesses have to start their MTD compliance, how can you prepare your practice? How can you ensure the transition to MTD is as seamless as possible for your clients, particularly when there is so much uncertainty still surrounding it?

From the insight we have gained in working with HMRC in its MTD road-testing, and from all the latest MTD announcements we monitor, we have put together this checklist of six preparation activities you can be getting on with. These are intended to put your practice on a firm footing and ease the learning curve for you and your clients when the final form of MTD is confirmed. It will help you build an MTD-robust practice.

And if you have any questions about how to equip your practice for the changes that lie ahead, do get in touch. We may not have all the answers yet, but we can tell you what we know from our latest road-testing work with HMRC's digital team and the latest announcements. We know MTD represents a major change for the UK's accounting and tax practices which is why we are doing our utmost to ensure they have MTD compliant software and support when the time comes.

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1

Be clear when your clients are required to start MTD

Now that the Government has confirmed the rollout schedule for MTD's implementation, you can identify when clients are due to comply.

MTD's rollout schedule

- April 2017, starts with a Beta rollout for a selected few individuals to begin with, followed by more as the year to April 2018 develops
- April 2018, for businesses who have profits chargeable to Income Tax and pay Class 4 National Insurance contributions (NICs) and have turnovers in excess of the VAT threshold
- April 2019, for businesses who have profits chargeable to Income Tax and pay Class 4 NICs and their turnovers are below the VAT threshold but above £10,000
- April 2019, for businesses who are registered for and pay VAT
- April 2020, for businesses who pay Corporation Tax (CT)

As a result of this, you may want to prioritise alerting and educating certain clients about MTD according to their compliance date. It is likely that MTD will represent a significant learning curve for you and them. It is also likely you will have finite time and other resources for this education process.

Here at BTCSoftware, we are providing tools within our practice management solution to help accountants quickly identify individuals and businesses who will be participants in the MTD scheme by referencing turnover, VAT thresholds etc.

In your prioritisation and planning also factor in which client businesses are going to find the move over to MTD more straightforward and which less so, given their business operations and the complexity of their business affairs. From this draw up a schedule for notifying, educating and supporting your clients in their MTD transition. Alternatively, you may feel you'd like to try and educate all your clients in one go. It will very much depend on your practice's resources.

Whichever approach you take, do review when and how different clients will be affected, so you can give your firm as much time as possible to prepare them.

2 Review your clients' accounting systems to cope

A major drive behind MTD is to improve the digitisation of the UK's tax system. It will mean businesses will be expected to improve (or in some cases completely move over to) digital accounting. Given a recent survey by the **UK200Group** found 65% of their members SME business clients do not currently use software to manage their accounts, there's clearly quite a steep learning curve ahead for some accountants' clients.

Many in the accountancy profession are saying that cloud book-keeping and other online accounting and software systems will help clients ease into their MTD requirements. This does however depend on the quality of broadband in yours and the client's area. In talking with your clients about MTD, explore what form of digital accounting systems will work best for the both of you. Factors to consider here include how both businesses operate, when and where information/ data is usually collected, what IT infrastructure currently exists, the synergy of your different systems, accessibility preferences, security considerations and broadband quality. There are different accounting software options on the market— cloud software, desktop or a hybrid of the two where the hub of information is on desktop in the office, but also visible in the cloud.

3 Review your practice's systems to cope

As well as supporting your clients' systems to get MTD-ready, it is important to ensure those in your practice are also in shape for MTD. Use the time now to conduct a review - particularly of your practice management system - to see if it will be able to handle the new frequency in reporting, increased workflow and being able to efficiently collect data from clients.

Do also check your practice's accounting and tax systems are MTD compliant and your software provider is integrating HMRC technology as it releases it. Also check the support arrangements in your software contracts. As MTD is likely to present a number of teething problems, you will probably want to call on your software support team's help more frequently. If you are charged for specific levels of support, you may want to review this and opt for a more flexible and affordable support package.

Finally, do check your data backup is being regularly kept up to date. Instigate a regular backup routine so important data can be retrieved if any new MTD software development causes an issue.

4 Budget for educating clients and making them MTD-ready

Whilst you won't have all the answers for some time, your clients will be looking to you for guidance as they face MTD. Of course time is money for accountancy advisers and you need to budget for educating and transitioning clients over to MTD. Many accountants have raised concerns about whether they can charge their clients the fees to cover the transition. Start planning now to define a budget which will work for your practice and your clients' businesses as MTD rolls out. In doing so:

- Consider how to deliver the necessary training and ensure your systems are capable of delivering MTD. You may need to move clients over to new routines, approaches and systems in preparation.
- Review whether to affiliate to a small number of book-keeping and other software providers for clients to use (eg utilising a white labelled service) rather than having to deal with migrating clients on multiple packages to MTD. You may have to invest up front in supporting clients in the set up and training, but in the long run it may prove more efficient having all clients utilising fewer systems.
- Test out different scenarios for providing clients with different levels of MTD transition support – what fee thresholds will give you a chance of supporting MTD as efficiently and as effectively as possible (for you and them)?

5 Assess and prepare for the impact on your business

Despite initial worries that MTD would make accountants redundant, in reality it is likely to incur more work for your practice as clients call on your help to comply with the new regulations. Quarterly reporting is also likely to mean additional contact with them and so it is sensible to assess and prepare for the impact MTD will have on your practice. Here are some suggested areas to consider:

- Review your fee structure given the additional workload anticipated - in doing so, analyse different pricing models which assess your clients' ability to pay for the additional work, potential fee growth for your practice and possible changes to profitability levels.
- Consider new business streams arising out of MTD. You may be able to offer different tiers of support in preparing clients for MTD. These could include training sessions, setting up internal systems for them, offering outsourced Financial Director/Manager expertise etc.
- Check, as well as the systems, you have the necessary staff and processes in place to support clients with MTD. You may feel you'll need additional staff, in which case it may be better to start the recruitment process sooner rather than later. You may also want to investigate collaborating with another practice to pool resources.
- Create an MTD offering which could appeal to clients of larger accountancy firms who may struggle to support them cost-efficiently.
- Re-evaluate your criteria for new client acquisition – based on your assessment of the points above. You may need to redefine your criteria for deciding which new clients to take on. For example, you may decide to only take on more IT/financially literate clients, or you may want to put in place a different offering/ package of services for those who will have a bigger learning curve with MTD. The criteria you draw up should factor in your firm's resources, systems, profitability margins as well as longer-term growth plans.

6

Follow the latest developments and announcements by HMRC

Accountancy firms often bemoan that HMRC keeps them in the dark about MTD, however there are many ways it is communicating with Agents. Try and keep up to date with these sources so you can follow developments as they happen and factor them into your planning

- Agent Update online Magazine <https://www.gov.uk/government/collections/agent-update> This is a monthly publication which Agents can subscribe to, or just go to the above webpage for the latest insights. It is packed full of helpful information and you can even get an email reminder of the latest issue by completing this form <http://www.hmrc.gov.uk/gds/agents/agentupdatereg.htm>
- Granicus – HMRC’s Bulk Email Delivery Platform - HMRC send regular emails to Agents with further information, provided they are subscribed to the list. Agents can join the list by checking the box “HM Revenue & Customs may wish to send you other tax related email updates. If you would like to receive these, please select...” which appears at the bottom of the Agent update subscription form <http://www.hmrc.gov.uk/gds/agents/agentupdatereg.htm>. Import mailshots (eg MTD consultation documents) are also sent to accounting and tax professional bodies who in turn deliver HMRC’s messages to their members.
- Talking Points <https://taxagents.blog.gov.uk/tag/talking-points/>. These are weekly interactive meetings on hot topics during which Agents can ask questions of the subject matter expert (SME). See: <https://www.gov.uk/government/news/webinars-e-learning-and-videos-if-youre-a-tax-agent-or-adviser>
- Blogs <https://www.blog.gov.uk/> There are many blogs with Agent-related topics that can be subscribed to and which will share MTD-related news and developments as it occurs. See <https://taxagents.blog.gov.uk/> and <https://www.gov.uk/topic/dealing-with-hmrc/tax-agent-guidance>



SUMMARY

While we all now know MTD's rollout schedule, its true shape and form has yet to be revealed to software developers, accounting and tax professionals and their clients. That's not to say that accountancy practices can't start preparing for MTD, particularly in helping less financially and IT-savvy clients introduce now the systems that will make their MTD compliance less onerous in the longer term. MTD will represent a greater workload for accountants and those who are more strategic by reviewing their current practice systems and preparing them for the change, are more likely to be successful as MTD rolls out.

In your preparations, it is important to keep up to date with the latest announcements from HMRC. A key and imminent one will be around Agent Authorisation, so accountants can submit information easily on behalf of their clients. Agents will need to create a new Government Gateway ID and subscribe to MTD. After that, HMRC will undertake a 'mapping' process to duplicate the existing 64-8 authorisations from the current platform to the new MTD one. Any new clients an Agent takes on after this point can either be introduced to the "old" Self-Assessment platform or the new MTD one. It's currently unclear though if new clients can be on both platforms, so it's important to follow the latest developments in order to plan workloads accordingly.

At BTCSoftware we recognise the major impact MTD will have on UK accounting and tax practices. That is why we are committed to working closely with HMRC to road-test the technology as it is released. Our aim is to ensure accountants can be confident that our software is MTD-compliant, so they can just focus on supporting their clients and ensuring other aspects of their practice are MTD-ready.

If you need help preparing your practice and clients for MTD, contact our friendly UK-based team on tel. 0345 241 5030 or email: sales@btcsoftware.co.uk. You can also find latest announcements at our [MTD Knowledge Bank](#) or by following us on [Twitter](#), [LinkedIn](#) or on [facebook](#).

About BTCSoftware

BTCSoftware develop feature-rich, cost-effective and MTD compliant software products that make life easier and more rewarding for accounting professionals. Our abiding ethos is that quality, practice grade software should never be expensive.

Suitable for sole practitioners or larger practices, we've designed our software so it's simple to use, whatever the size of your practice. From start-ups to well-established firms, BTCSoftware's solutions give you the ability to complete Self-Assessment, Corporation Tax and Companies House returns quickly and easily at a price you can afford – and all encompassed within a practice management solution.



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