CONVINCE ME!

Accountancy firms' attitudes to Making Tax Digital

A white paper by BTCSoftware

October 2017

IN A NUTSHELL

This white paper draws on the findings of a survey of BTCSoftware customers – small and medium-sized accountancy practices who support thousands of the UK's entrepreneurs and SMEs (small and medium-sized enterprises).

Prior to July 2018, HMRC had always shown a clear desire to move many of these businesses over to Digital Accounting. Making Tax Digital (MTD) meant many of our customers would be at the forefront of a major learning curve of these businesses. Whilst Making Tax Digital may have been delayed for some, it's not clear whether it's completely gone away.

We therefore canvassed the views of our customers as to their attitudes around MTD. The overall sentiment amongst these accountancy practices was one of deep scepticism and frustration.

- 37% of responses thought MTD would help them streamline new processes in their practice
- 25% of responses couldn't see any benefits of MTD for their practice and their clients
- Over 63% of responses felt MTD would lead to greater tax-related errors which accountants would then have to resolve
- 44% of the respondents surveyed would wait until MTD became mandatory before implementing a MTD-compliant solution

BTCSoftware has always supported accountancy practices who help the UK's SMEs and entrepreneurs comply with their accounting and tax obligations. We feel it's important that their views to MTD are known. HMRC will need to engage more with the SME business community and their advisers, if it wants a seamless and positive adoption of MTD. In particular, it will need to identify and communicate distinct benefits to MTD and we hope sharing our customers' concerns will help that process.

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A QUICK RECAP

The delay to Making Tax Digital (MTD), which was announced back in July 2018 came as welcome relief to most accountancy and tax professionals.

Under the current new timetable only businesses with a turnover above the VAT threshold (currently £85,000) are required to keep digital records and only for VAT purposes. They will only need to do so from 2019 and businesses will not be asked to keep digital records, or to update HMRC quarterly, for other taxes until at least 2020.

The Government also indicated that Making Tax Digital (MTD) will be available on a voluntary basis for the smallest businesses, and for other taxes. It announced that:

• Businesses and landlords with a turnover below the VAT threshold will be able to choose when to move to the new digital system.

• As VAT already requires quarterly returns, no business will need to provide information to HMRC more regularly during this initial phase than they do now.

• All businesses and landlords will have at least two years to adapt to the changes before being asked to keep digital records for other taxes.

The voluntary basis caught many in the profession by surprise and begs the question, when given the choice, will SMEs really move over to Digital Accounting?

Yet HMRC stands to get significant efficiency gains from Making Tax Digital and so it is surprising that a significant number of business were given the option to opt out.

WHY THE SURVEY?

BTCSoftware has always supported HMRC in it's development of Making Tax Digital (MTD). We continue to monitor the latest developments and work closely with HMRC to integrate their changes into our software.

At the same time our customers are small and medium-sized accountancy practices who support the UK's SMEs (small and medium-sized enterprises) which the Government had very much wanted to move over to Digital Accounting.

When the delay to MTD was announced we canvassed the opinions of our customers as to what they thought of MTD going forward. In particular we wanted to uncover.
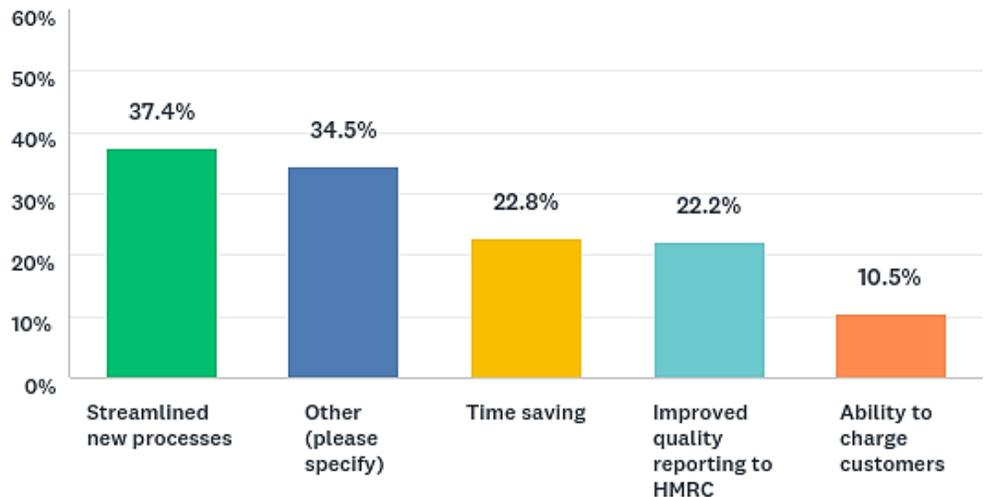
• What accountancy firms thought to be the benefits of MTD for their practice?

• What did they consider the benefits of MTD to be for their customers?

• We also asked them about what drawbacks they envisaged MTD would bring to their practice

• Given the optional element to MTD, when they would intend to move over their practice systems, software and clients over to a MTD compliant solution?

Over 170 of our customer accountancy firms responded to our survey and this white paper reveals their thoughts and concerns about Making Tax Digital. Given these firms will be at the forefront of helping many SMEs and entrepreneurs comply with MTD whenever it is made compulsory, and who no doubt will incur the greatest learning curve, we felt it was important that their views were heard.

The UK prides itself on its entrepreneurial spirit. SMEs played a significant part keeping the economy moving forward in the last recession. From our research accountancy firms clearly worry that MTD will not enhance SME efficiency and effectiveness as HMRC hopes.

MTD's BENEFITS

What benefits do accountancy firms think Making Tax Digital
(MTD) will bring to their practice?

We asked accountancy firms what benefits they thought MTD would bring to their
practice. They could tick as many benefits as they wanted from a given list and the
benefit most selected was that MTD would enable practices to streamline new
processes. The third most selected benefit was that the practices felt it could bring
some time savings to their approach.

Interestingly, the second most selected option was Other. When we looked into the
reasons given here, the majority (72.8%) showed that the accountancy firms couldn't
actually see any benefits of MTD to their practice. Here are some of the many
comments which were given...

*"I'm not sure it will generate many benefits. Happy to provide data electronically to
HMRC but to do so on a quarterly basis means less time to be proactive and more
time preparing accounts. Most clients who act on regular reports will not be affected
by MTD as they are producing the data already. Those who do not feel the need to
use regular data (one man band companies) will require more required time spent on
their affairs."*

*"I don't see any benefits as costs will increase and clients will be reluctant to pay
more. We do not anticipate any time saving. Streamlined new processes will come
at a cost, if achievable at all. HMRC do not reward improved quality reporting; you
need customers that can afford increased costs before you're able to charge them
more."*

*"In theory it should be better, but HMRC are involved and it will result in more
problems than benefits, - especially if tax for self employed is still to be paid in
January and July. Payment should be made in real time as the quarterly accounts are
filed. This would be the real benefit."*

On a more positive note, some recognised the benefits of having work spread out more evenly across the year as a result of Making Tax Digital (MTD, but they were in a minority.

"Having more timely information from our clients. Receiving information quarterly will be better than up to 9 months after the year-end meaning we can give better advice, provide a better service and increase fees"

"Clients will have to pass you their records on time in order to complete quarterly returns. They will no longer be able to pass you their records on 30 Jan to complete their returns"

"It should bring clients' records up to date so that queries can be answered more accurately, as a shorter time period has elapsed so clients are more likely to remember why they did certain things! This in turn means greater accuracy and a better picture of clients financial affairs to provide better advice to them."

Clearly if HMRC wants accountancy firms to help it on-board small and medium-sized businesses to Making Tax Digital, it needs to consider the extra time and effort which will be required and the fact that these businesses won't be able to afford additional fees to fuel the learning curve. Many SMEs still rely heavily on their accountants as a valued outsourced, expert resource which in turn releases them to focus on other areas of the business. They will have limited budgets for this resource and implementing MTD could result in considerable increased costs for them.

What benefits do accountancy firms think Making Tax Digital will bring to their clients?
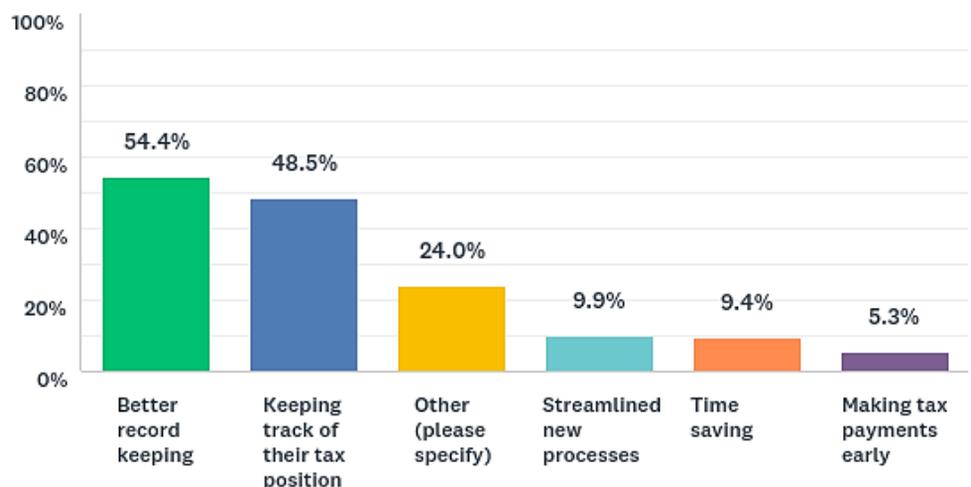
Again accountancy firms were given a range of benefits and could select as many as they wanted to this survey question. Distinct benefits they felt their clients would gain from MTD were *Better Record Keeping* and also being able to *Keep Track of Their Tax Position* more effectively. This would no doubt help their SME clients with better budgeting, forecasting and decision-making.

Again 'Other' was the third most selection option in this question. 73% of responses who selected this said they saw no distinct benefits in Making Tax Digital (MTD) for their clients. Here are some of the views which were shared:

"None [benefits]. People will not look at tax accounts or use information in any way."

"Some clients would benefit from having a more explicit structure for record-keeping but most already keep perfectly adequate and fit for purpose records: there is a net loss here not a net benefit."

"There are no benefits: MTD will take more time, not less. Streamlined new processes will cost significantly more money than currently expended. Better record keeping may transpire but only with hand-holding to teach bookkeeping to the client. Keeping track of their tax position means real-time management info, which is generally not possible with busy small businesses. Making tax payments early will have a significant negative impact on the cash flow of most businesses, particularly those with little or no support from their bank."

"There are no benefits that we can see. This it to the advantage of HMRC and not the tax payer."

"No benefits - it is a complete burden to the self employed and small businesses. It is a complete imposition and has been added to already overworked businesses."

One respondent raised the issue of the lack of understanding and awareness of MTD amongst small businesses. Clearly HMRC has a large communications job to do if it wants to make MTD mandatory in the longer term for SMEs. Accountancy and Tax advisers will clearly be a first point of call for questions from their clients and we'd encourage HMRC to collaborate and listen more to agents' concerns. Working collaboratively could lead to finding an easier adoption model for the SME community going forward.

THE DRAWBACKS

What do accountancy firms see as the drawbacks of Making Tax Digital (MTD) to their practices?
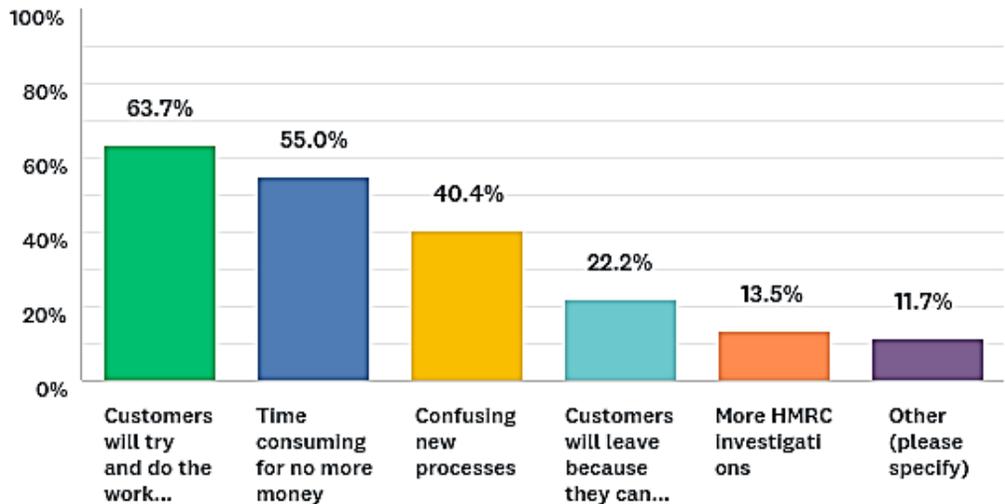
Drawbacks	Responses
Customers will try and do the work themselves and create more problems for you to fix	63.74%
Time consuming for no more money	54.97%
Confusing new processes	40.35%
Customers will leave because they can do the work for themselves	22.22%
More HMRC investigations	13.45%
Other (please specify)	11.70%

Despite HMRC hoping that small and medium-sized (SME) businesses will become more self-sufficient and tax-savvy in managing their Digital Tax Accounts, their accountants believe that in reality those businesses will indeed struggle. A number of reasons for this were given including varying broad band speed across the country, some clients not using a computer to run their business, clients not being tax experts etc.

It therefore means, SMEs will rely heavily on their accountancy and tax advisers to sort out the resulting problems they encounter with Digital Tax Accounts. This could then result in higher fees for cash-strapped businesses. Some accountants question whether businesses will indeed be able to afford the additional fees that will accompany the MTD learning curve – as pointed out in the second most selected drawback.

Further rationales for the drawbacks came in the responses to the *Other* category option. Comments here included:

"If clients try and submit themselves they will make mistakes and so there will be countless errors and reconciliations that HMRC will inevitably ask about. In our experience clients cannot use an accounting system accurately; dividends as expenses is a classic example."

" We envisage MTD will bring an increase in costs from the additional investment in software and training, plus the additional time to liaise individually with each client."

"Until all people in the UK have access to fast and reliable broadband this project is fraught with difficulties."

"Based on the erroneous information held by HMRC that already requires correcting, MTD does not inspire confidence."

"With many small clients it's hard enough to get the information from them on a yearly basis ,so the thought of keeping up quarterly fills me with dread. As well as the quarterly deadline for a sole practitioner."

" MTD will be hugely time consuming in the short term. We have a number of clients who run successful businesses without a computer, so it will be more work and cost for them

Many of the accountancy practices who replied to the survey question whether they can pass on the additional time costs which Making Tax Digital (MTD) will incur to their clients. Some indeed mooted it would no longer make their business commercially viable and are considering exiting before MTD fully comes into force. This in turn would mean less choice in the market for small and medium-sized businesses and probably higher accountancy fees for those in most need of tax guidance and help.

OPTIONAL VS COMPULSORY

Making Tax Digital (MTD) now has an optional element. Going forward, BTCSoftware was keen to find out what will get the quickest adoption — optional or compulsory - amongst accountancy practices and their clients.

Given that Making Tax Digital has an optional element, when would you like your practice to move to an MTD-compliant solution?
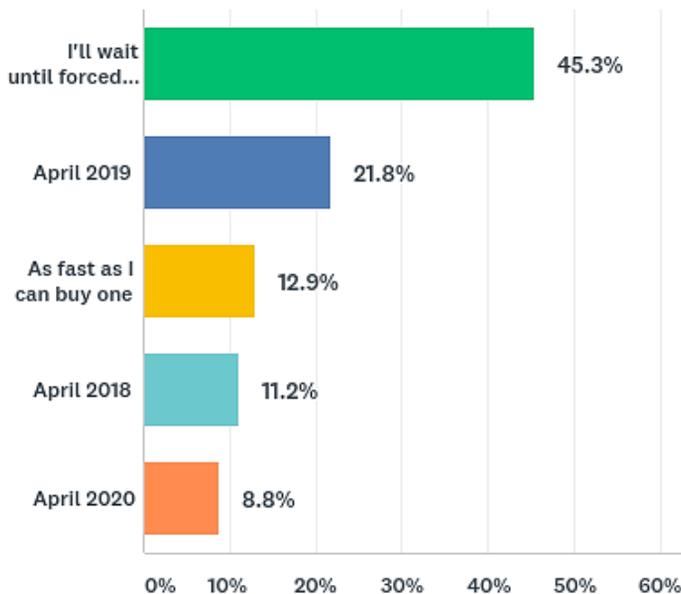
MTD timetable recap

Under the current new timetable only businesses with a turnover above the VAT threshold (currently £85,000) are required to keep digital records and only for VAT purposes.

They will only need to do so from 2019 and businesses will not be asked to keep digital records, or to update HMRC quarterly, for other taxes until at least 2020.

Businesses and landlords with a turnover below the VAT threshold will be able to choose when to move to the new digital system.
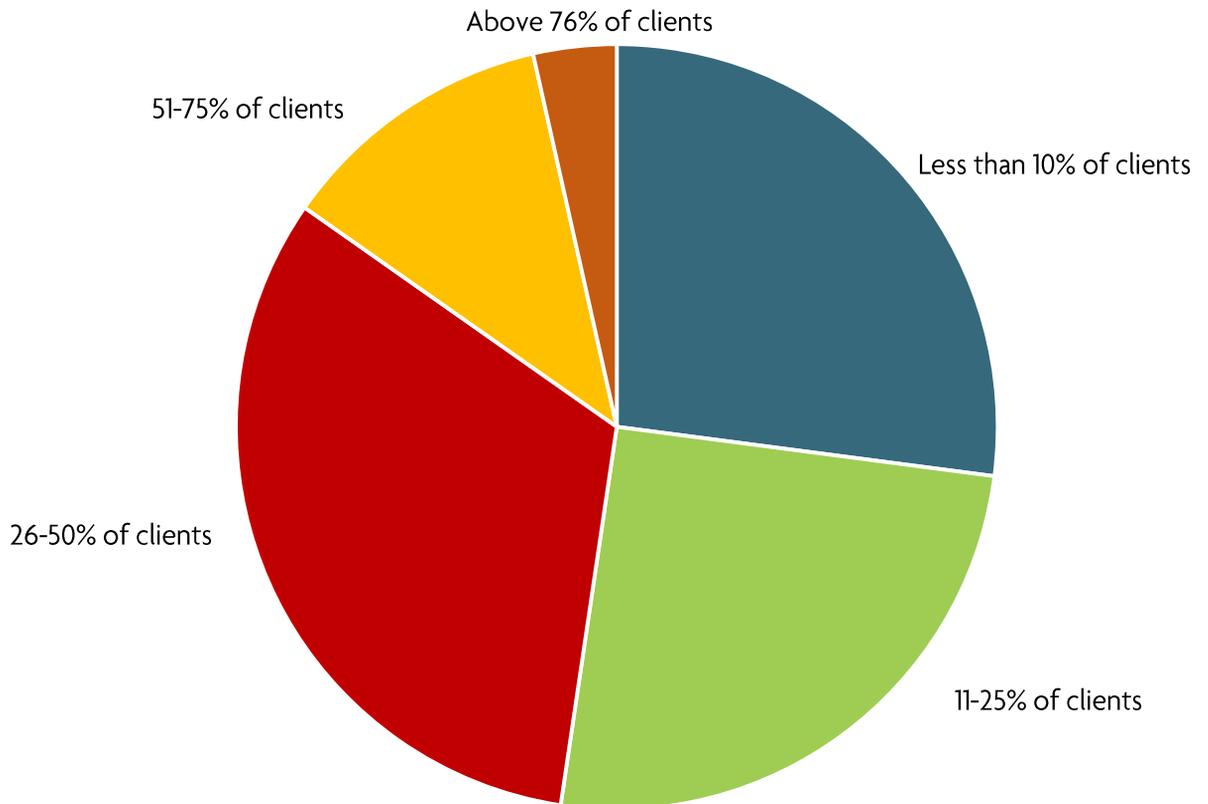
When will you move your practice to an MTD-compliant solution?	Responses
I'll wait until forced by law	45.29%
April 2019	21.76%
As fast as I can buy one	12.94%
April 2018	11.18%
April 2020	8.82%

If HMRC was hoping that small and medium-sized businesses and their accountants would embrace MTD in a voluntary capacity, they may need to think again. From this survey's results, mandation would be the only rationale to motivate accountancy practices to support it.

Those selecting April 2019 have clients affected by the 2019 MTD criteria as we also
asked our survey respondents...

**Under the current new timetable only businesses with a turnover above the
VAT threshold (currently £85,000) will have to keep digital records and only for
VAT purposes. They will now only need to do so from 2019.**

What percentage of your clients are affected by this?

Above 76% of clients

51-75% of clients

Less than 10% of clients

26-50% of clients

11-25% of clients

SUMMARY

The accountancy practices we surveyed have substantial reservations about Making Tax Digital (MTD). Many feel it will have a detrimental impact on their clients' businesses (small and medium-sized businesses) and their own.

If HMRC wants to improve the digitisation of the UK tax system and bring SMEs over to digital accounting, it would be wise to listen to these concerns. It would also be sensible if it engages more with the SME community and their advisers to ensure the MTD learning curve and transition period doesn't put those businesses at a significant commercial loss.

Indeed, HMRC may need to consider incentivising businesses to embrace MTD if it wants more to sign up to it in a voluntary capacity. Here are some other final comments and ideas for MTD from our survey respondents.

"Good software such as BTC's is a great tool but the old adage "garbage in garbage out" applies to some clients and it's not clear how MTD will improve the tax take for the Government. It may even deter some to comply at all. Are businesses interested in tax and filing 4-5 times a year for each activity? Probably not. The other factor is the disconnect between "simplifying" the process of compliance and the complexity of the tax system. The two things are irreconcilable unless there are fundamental changes to the tax and benefits system."

"Most of my clients engage me as they don't want to do tax themselves. For some, no matter how organised I am, getting information from them once a year can prove difficult enough, getting it 4 times a year will prove nigh on impossible! I don't even know how you can build issues like that into software development!"

"MTD should not be compulsory. Electronic filing of tax returns was phased in over many years and is still not compulsory, MTD should follow a similar line."

"Clients with simple businesses and well-established record-keeping systems should not be made to keep their records digitally."

"We have over 300 clients, and the vast majority don't wish to be burdened using a digital book-keeping package. Many will summarise their records in some form, but rely on us for the record keeping. I believe that is the reality for many businesses with turnover less than £100k."

"Clients are averse to any change so trying to make them do anything is near to impossible. They also take the view that it's the accountant/software company who are trying to part them with their money. Making things as simple as possible in easy to understand English would be a bonus."

"Preparing VAT returns on a cash basis is fine or where invoices are scheduled. However tax is a different matter. There are many expenses which do not occur on a monthly basis such as rates and insurance, accountancy etc. and applying an accruals basis of accounting on a quarterly basis will be a nightmare. Profit levels are likely to fluctuate considerably resulting in regular over and underpayments. There will be no benefit to the average business owner only more cost and confusion."

""This could be a great thing for clients, as it gives them a greater understanding of their business and where things are up to so that issues can be addressed earlier. However there is a massive amount of education required in relation to clients and HMRC need to understand although they say it's not 4 tax returns (or 5 with the final one!) there will be a lot more work involved if the client wishes our practice to undertake this."

What BTCSoftware is doing to help

For the past 2-3 years we have been working closely with HMRC's Digital Team to test its APIs to make the Making Tax Digital technology fully functional. For the unfamiliar, the APIs enable data to effectively pass through HMRC's portal from third party software, such as BTCSoftware's. HMRC is heavily reliant on third party software to make MTD work. In it's development roadmap published in July, HMRC's Digital team mapped out 43 different elements to be developed, tested and finalised by December.

The BTCSoftware team, are committed to testing and then integrating the APIs into its own tax and accounting products. Clearly many of our customers have clients affected by the 2019 mandation but, irrespective of that, we feel MTD won't go away. Digitisation of the tax system is still needed and any Government will look favourably at the potential efficiency gains to be had from MTD.

We also know the current Government continues to invest heavily in this initiative and HMRC's Digital team is expanding rapidly. At the same time, it has been well-publicised that HMRC is rationalising and reducing staff numbers in its traditional processing centres.

The BTCSoftware team recognise that accountancy practices need an MTD solution that's both easy to implement in their practice and warrants a painless and easy learning curve for their clients. We will continue to work with and lobby HMRC to help these needs be met.

A HELPING HAND ALONG THE WAY

About BTCSoftware

We develop feature-rich, secure and cost-effective 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.

We are continuing to work closely with HMRC on its Digital Accounts projects so that when Making Tax Digital (MTD) becomes completely mandatory (and we believe it will), our software is ready, easy to use and aids our customers migrating their clients over to MTD seamlessly and as effortlessly as possible. It is already MTD-compliant with the API's HMRC has released prior to October 2017.

If you have any questions about MTD's impact on your practice, please contact the BTCSoftware team . We will do our best to answer them.

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