



# AN ACCOUNTANCY PRACTITIONER'S GUIDE TO MAKING TAX DIGITAL

*A CaseWare eBook*



## INTRODUCTION

**It represents the biggest change to the UK's tax system for 20 years, and as HMRC's ambitious plan to move away from paper-based tax returns gathers momentum, there is much accountancy practitioners should be doing to get their houses – and those of their clients – in order. This eBook aims to provide practices with a useful guide to preparing for the changes.**

Making Tax Digital (MTD) is the UK Government's road map for a new digital tax administration and includes the requirement for most businesses, self-employed people and landlords to keep track of their tax affairs digitally and update HMRC at least quarterly via their digital tax account.

HMRC's staggered rollout of digital tax accounts will start with the UK's smallest businesses and army of self-employed, who must to comply with the new regime and supply quarterly accounting information by April 2018. The government is

proposing that all unincorporated businesses and landlords with annual turnover below £10,000 will be exempt from the new obligations and is consulting on how eligibility for deferral should be defined.

HMRC is keen to stress that MTD will make things more effective, more efficient and easier for taxpayers, while glossing over its ambition to close the UK's substantial tax gap. Certainly, many of the foundations underpinning the strategy are laudable objectives – simplification of tax, the ability for taxpayers to see their complete financial picture in one digital account and a move away from businesses waiting until the end of the tax year or even longer before knowing how much tax they should pay.



## WHAT DOES GOING 'DIGITAL' MEAN FOR ACCOUNTANTS AND THEIR CLIENTS?

Despite the absence of concrete detail on the strategy, there is much that practitioners should be doing in anticipation of the new regime. Rather than play a waiting game, the onus is on accountancy firms to make best use of the coming months to resource themselves and prepare for the raft of (hitherto unanswered) questions soon to be unleashed by clients.

Bearing in mind that the vast majority of small businesses and landlords currently rely on either paper-based systems or the trusty spreadsheet for all things financial, the implications of this digital vision are not to be sniffed at. Digital doesn't just mean Excel, it means very specific software that interfaces with HMRC's systems. While Excel spreadsheets can still be used, it must be possible to integrate these with Making Tax Digital compliant software.

HMRC have confirmed that there will be free software available for businesses and landlords with the simplest of tax affairs, but for many small businesses currently relying on paper-based systems or spreadsheets for financial management, the prospect of a quarterly digital reporting regime is likely to force them to consider an accounting software package. At the time of writing, 18 software companies had products under development with a further 20 "waiting and watching", according to HMRC director for MTD, Theresa Middleton.



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## START WITH SEGMENTATION

**The starting point for any practice is to take a good look at your client base and segment your clients based on who is already digitally-enabled and who isn't to ascertain how much hand-holding they are likely to need.**

VAT registered clients will already be reporting quarterly. It remains for you to check whether or not they are already using software for record keeping. If they are, you should stress the need for them to be using a package that will be compliant.

For those VAT-registered clients still relying on spreadsheets or manual processes, they will need to start the process of software evaluation and as a trusted adviser there is much you can do to guide clients through the 'minefield' of accounting application selection.

Some firms have taken the decision to standardise on one package and insist that all clients use that software.

Of course it's a risk if clients have other ideas about what they'd like to use, but if that's your strategy, it's important to stick to it, even if that means you might lose a handful of clients in the process.

Other practices won't stipulate which accounting software clients must use – the challenge there is to ensure your practice's tax software has the capability to pull data out of disparate accounting software packages.

It is likely that those clients below the VAT threshold will need a bit more focus from their accountants. Assuming that some of these will be required to do quarterly reporting, they will be faced with the choice of either updating that information themselves or passing on responsibility to their accountant. Either way, they are the group for whom MTD is likely to represent the biggest change.



## ENGAGE YOUR CLIENTS NOW

Whichever demographic your clients fit into, the key is to reassure and educate them in as timely a manner as possible on what the changes will entail and what they will need to do in order to be compliant. Hand-holding is key given the just how ambitious HMRC's vision is, particularly for the army of SMEs faced with radical changes to their *modus operandi*.

To make MTD a success, HMRC will need a huge amount of engagement, and yet the reality is that many clients remain totally unaware of the changes in the pipeline. That absence of public engagement is borne out in various polls on the issue, which suggest that almost half of respondents still don't know what Making Tax Digital is.

Feedback from our own clients paints an equally pessimistic picture. Our own recent survey revealed that 71% of taxpayers do not see Making Tax Digital as beneficial for them, a concerning reflection of the overall attitude amongst

taxpayers towards the MTD initiative. Our survey also revealed the purchase of software is the biggest concern with regards to cost for taxpayers, and 53% of respondents have concerns relating to the security of the data submitted to HMRC.

But like it or not, MTD is coming and communication with clients is vital. Consider sending out an email, newsletter or mailshot to raise awareness. The last thing you want is to be on the back foot. Start educating clients now so that they can start preparing as soon as possible.

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*The key is to reassure and educate your clients in as timely a manner as possible.*



## DEVELOPING MORE VALUABLE RELATIONSHIPS

For advisers already bemoaning the negative impact of a rising audit threshold on revenues, much is being made of the damaging impact digital tax accounts could have on the relationship between accountants and their clients. Realistically some clients may look to MTD as an opportunity to take accountants out of the equation in their dealings with HMRC. Or depending on your clients' attitudes towards MTD, accountants may need to change the way they work as clients may want them to do more for less on compliance.

The reality is that many clients will want to continue to use their accountant to do the compliance grunt work for them. For many small businesses, self-employed and landlords, it's simply not something they want to have to do. But what's also true is that the market for compliance work isn't as important as it used to be.

The good news is that there is a genuine opportunity for practices to develop deeper relationships with higher-rolling clients who have genuine demand for non-compliance, value added business advisory and analytical services based on the insight offered by the new quarterly reporting regime.

In particular, the reporting benefits offered by MTD are not only good news for business, many of whom continue to run their businesses based on historical accounts. For practices, MTD should mark the end of the January rush to hit the deadline for paper tax returns. But more than that, client records in the cloud give accountants the opportunity to focus on business planning and analytical services to help drive business growth. Business benchmarking, where firms can compare the business metrics of clients to averages across the sector, is another area predicted to grow dramatically over the coming months.





## CONCLUSION

The challenge for accountants is to “up their game” and tell a different story. It’s a big opportunity but the profession faces significant change and it’s important for today’s accountants to determine how it should look in the future. These new services aren’t going to materialise on their own; it’s up to firms to proactively promote the value of this new advisory and reporting model to their clients.

Ask yourself too how your firm needs to prepare for the changes brought about by MTD. Make sure that staff are prepared for the regime by investing in training so they are well versed in accounting systems. Consider taking any accreditations that your software provider offers for fee earners to give you credibility and help you attract new clients. Company-wide training programmes may seem over the top but they go a long way to removing the inevitable resistance to moving to digital.

**Making Tax Digital is going to happen, there’s no question about that. Rather than dwell on the negatives, focus on how the new reporting regime offers your practice the chance to develop a more engaged relationship with clients and gives you an excuse to speak to them on a variety of issues several times of year. For that reason alone, MTD is a great opportunity. Embrace it.**

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