

Going digital

Making Tax Digital appears to be inevitable and **Karen Lowen** suggests that advisers should engage with the process sooner rather than later.

TEN SECOND SUMMARY

- 1 The initial Making Tax Digital consultation period has closed and further information is awaited.
- 2 Accountants are used to adapting to new legislation and processes.
- 3 Small practices should start to think about how they will bring an online approach to their work for clients.

In the 2015 Autumn Statement, the government set out a clear mandate to transform the tax system – to reduce the burden on taxpayers and build a more transparent and accessible system fit for the digital age. By December last year, ministers had unveiled their Making Tax Digital (MTD) roadmap – a series of six consultation documents setting out just how this dramatic change could be achieved.

This is, no doubt, an even bigger change to the tax system than the introduction of self assessment back in 1997, when many voices foretold the death of the small business accountant and drastically reduced client numbers for everyone else. This has proven not to be the case, with the number of members of accountancy bodies growing year on year. So, should we listen to those who declare that MTD will herald the end for those who deal with small and micro businesses?

For better or worse, MTD is here to stay and agents and businesses must be ready for what the government is calling “ambitious and radical reforms”. However, although the shape of MTD is forming, the finer detail has yet to be decided. As we go to print, the final date for submitting comments on the consultation documents has passed and, once analysed by HMRC, it is likely that more detail will be made available.

Assessing the impact of MTD

So, what do we know about how MTD will impact agents? Digital tax accounts have been introduced for individuals already, with the view being that, in time, these will give taxpayers an overall personalised view of their tax position. However, agents do not currently have access to these and it is the Revenue’s view that this will not be provided in the future.

In the *Bringing business tax into the digital age* consultation document, HMRC says that it “is exploring, with specialists, the role of spreadsheets in business record keeping and their ability to meet the requirements and benefits of MTD”.

However, if these cannot be integrated, access to client information will be through specialised software from third-party providers. Most of the options available are likely to be subscription based. However, the Government has promised that a free version will be provided, but availability and functionality will be unknown until the software houses bring their creations to market. The Revenue has stated that it will not be providing software itself and is already starting to withdraw its current products, with online filing for companies with accounting periods ending after 31 December 2015 already having been removed.

Many practices already use software, to some extent, if only for payroll where the move to Real Time Information (RTI) was introduced in April 2013. While there was initial resistance to this, and it has certainly not been free from error, most practices have adapted. Our involvement with software is growing, in line with the general growth of information technology everywhere. HMRC argues that most agents already file self-assessment tax returns online, with only 1% still using paper and, with VAT and payroll already online, it is not a big stretch to take accounting online. However, this does not recognise the fundamental changes needed to the way that practices have traditionally operated.

Accountants tend to be flexible by nature, our very role requiring us to adapt to new legislation on a constant basis and to review our practices and approach at least annually. MTD is yet another adaptation we need to assess.

Accessing information

HMRC is currently working with 18 software companies with private testing now taking place and a sample public test beginning in March 2017. How agents engage with MTD is critical to the project’s success, particularly as 70% of small businesses, the target market for the first wave of MTD, currently use an agent. How MTD will work for agents is summarised by Julian Hatt, HMRC’s Head of Stakeholder Engagement:

“Accountants and tax practitioners will be able to see and do everything their clients have authorised them to. Little bits of computer code, called APIs (application programming interfaces), will securely access information from clients’ digital tax accounts and deliver it safely to the practices’ software packages, so it will be presented in a style and format that’s already familiar to them. Agents will also have the ability to update the information and send it back to their clients’ tax accounts in the same way.”



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It is envisioned that the software will feed quarterly information into the tax account, while other third-party details, such as state pension and interest information, can be retrieved for the agent to check and correct, if necessary, the tax calculation given. The client will then have the option to make a payment on his account if he wishes to do so. At the end of the tax year an annual update will summarise the quarterly information, calculate any allowances not already claimed and adjust the information presented. However, how this will work and the exact information that will need to be provided is still up for debate.

Quarterly deadlines

A big concern for some agents is that a quarterly filing deadline for bookkeeping will mean, in effect, living through the rush usually associated with the 31 January self-assessment filing deadline every three months. This may be minimised, perhaps, if each business can select a quarter end date, as is currently the case when registering for VAT. However, because the fiscal year is not set to change, it is certain that most businesses will select the same quarter dates to end their accounting year in March.

Others are concerned that increased accountancy costs of quarterly filing may mean that clients are forced to carry out this task when they are ill equipped to do so. The role of the accountant could change to that of reviewer rather than compiler.

Opportunities and threats

To my mind there are likely to be three groups of client post-MTD: those who are content to complete their own online records and annual update; those who may, to some extent, compile their online records but need these to be reviewed; and those who require everything done for them.

So, MTD will bring opportunities in the form of quarterly reviews and increased bookkeeping work, but with the threat of the possible loss of some clients who find that they are able to complete their own annual update. The question is: what will be the net effect on accountancy practices?

To take advantage of the opportunities that MTD will bring, it is crucial that small practices start to think about how they will incorporate an online approach into their work. Out will go the last minute compiling of accounts from scraps of paper saved up all year, and in will come accounting in the modern age.

For practices that still depend largely on manual accounting, the move to digital may be a big learning curve. However, our profession is based on learning; we have to assimilate new tax legislation on an on-going basis and adapt our practices accordingly. But where to start?

Client readiness

Preparing our clients may be key to our success in leading the way with MTD; they often look to us for guidance and advice on upcoming changes. Therefore, it makes sense to start to talk to the smallest clients who are not currently using a bookkeeping programme about the introduction of MTD in April 2018. In having this initial conversation it may be possible to gauge the numbers of clients that will need all their bookkeeping carried out and those that will attempt to do it themselves.

The next step should surely be to see what is available. Although most of the MTD software is still under test and not commercially ready, it is worth looking at what is currently available to see whether it will be useful for those clients who wish to at least attempt having a go themselves. The benefits to the client should obviously be paramount here, rather than any incentive to the practice of promoting one particular software program over another.

Ultimately, whether MTD has a positive impact on our practices will depend on how we present it to clients as well as how we plan and adapt to it ourselves.

Nothing in life remains standing still for long and we must prepare ourselves for the biggest adaptation the profession has ever faced.

FURTHER INFORMATION

Thank you to all members who responded to our Making Tax Digital questionnaire. Your views have been vital in informing our responses to the following HMRC consultations: Bringing business tax into the digital age, Simplified cash basis for unincorporated property business and Voluntary pay as you go. View our responses at www.ifa.org.uk/representations.

