

Read all about it!

Melanie Lord explains why MTD is such good news for advisers and their clients.



TEN SECOND SUMMARY

- 1 A main aim of Making Tax Digital is the reduction of mistakes in VAT returns.
- 2 Preparing VAT-registered clients to meet the 2019 and 2020 MTD deadlines.
- 3 The move towards new software should provide accountants with improved flexibility on how and when they help their clients.

As the April 2019 start date for MTD draws ever nearer, we must all make some serious decisions about bringing our clients into line with the 2019 requirements. We have already heard and read a great deal on this and if you're like me it has all started to feel like a thick impenetrable mulch of information. So, rather than add another deadening and glutinous layer, I thought I would stand back and share my view from some solid ground. From here, I think I can see why MTD ought to be seen as "good news" because it has the potential to make some parts of life very much easier.

Approaching the hurdles

We know that one of HMRC's primary aims behind digitalisation is to remove the ongoing loss of tax resulting from manual mistakes made when calculating and submitting VAT returns. HMRC estimates this at £4.9bn a year, although it remains to be seen whether MTD will make any real difference. Nevertheless, whichever way this plays out, we must all comply with the new rules.

We have two significant hurdles ahead of us.

- **2019.** For VAT periods starting on or after 1 April 2019 (delayed until 1 October for VAT groups, trusts, overseas traders, those using payments on account and annual accounting and various public bodies) all VAT-registered businesses trading above the registration threshold must use an MTD-compliant process to create and submit their VAT returns. This is subject to "soft-landing" provisions allowing "copy and paste" until 2020.
- **2020.** Under rules yet to be finalised, the soft-landing provisions will be withdrawn and the whole end-to-end VAT return preparation and submission process will have to be handled digitally – more on what this means later.

While it is all too easy for MTD to seem like doom and gloom, ever the optimist, I have come to think this new chapter might be the best thing that has happened to the accountancy profession in a long time. Which of us loves to receive a carrier bag of receipts dumped on their desk or has a happy heart at the thought of scribbled sheets of paper purporting to be business records? Imagine that, used in the right way, MTD could remove all that wasted time and drudgery. Suddenly the new requirements start to look like our best ever birthday present. Instead of having to be a forensic accountant making sense of scant records, we could become valued business advisers and our clients' businesses could be better run. On that basis, embracing the opportunity that MTD presents could mean everyone is a winner.

Removing errors

Of course, HMRC expects to be the big winner from VAT operating through a digitised system. In theory, at least, it should prevent the department missing out on VAT underpaid as a result of mistakes. That said, I find it hard to believe that MTD will reduce a huge number of VAT errors. In my experience, many VAT adjustments spring from a supply being treated as exempt or zero-rated whereas 20% VAT ought to be paid – MTD won't make any inroads to those situations. There are also many over-claim situations for which there isn't a proper invoice – MTD cannot spot those. Then, there are timing errors if a claim is posted too early or a payment entered too late – MTD won't spot those either.



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What MTD will remove are arithmetical errors if a mistake has been made adding a column of figures. It will also remove transposition errors if the wrong figure is carried forward from one place to another, including across on to the VAT return. But can that really add up to £4.9bn?

Whatever the extent of errors that MTD prevents from happening, can the price that everyone is paying to comply with MTD be justified? I am not convinced, but unfortunately that changes nothing.

The plain fact is that every VAT-registered business must stop using manual records and move to a computerised, electronic process. As

HMRC has variously said: "It is only nine boxes"; but,

despite that, some organisations will have a huge mountain to climb between now and next April.

Going digital

The key MTD requirement is that everything has to be digital – which really means "not manual". So HMRC is not exactly saying that everyone must use an accounting package, it is just saying people can no longer use manual books. Importantly, MTD does not mean an end to simple Excel spreadsheets, as indeed many businesses operate these very successfully. What MTD does mean for spreadsheet users, including VAT groups and partly exempt organisations, is that from 2020 any transfer of a figure from one schedule to another cannot be copied and pasted, it must be by linking the cells. In this way, any changes in one schedule will automatically update on the other and prevent the frailty of human nature coming into play.

MTD for VAT only means that:

- records must be kept and preserved in a digital form – which just means not manuscript;
- VAT returns must be created from those digital records and submitted to HMRC using an API (application program interface); and
- the API must be able to receive messages from HMRC including "nudge" messages to the business or its agent.

The end of manual records will affect the worst organised people the most and they will have to make the biggest changes. Their choices include devising an integrated Excel workbook; subscribing for an accounting package; or employing someone to do their accounts using a MTD process.

The good news

So why is this good news? First, many accountants can benefit both themselves and their clients by harnessing the MTD changes. While MTD does not necessarily mean that everyone has to use an accounting package, this option seems likely to lead to the greatest benefits. If reluctant clients can be moved towards this, accountants can then:

- save time chasing and analysing information;
- work on better quality client data;

OPTIONS AND BENEFITS

Cheapest

A "DIY approach" using Excel spreadsheets and bridging software to submit VAT returns. Perversely, this covers some of the biggest businesses.

- *Good for* businesses with people who are already competent Excel users, can devise linked workbooks and adopt a bridging mechanism (some will be free).
- *Bad for* anyone without Excel skills; does not provide the accountant with remote access and likely to need further changes to meet 2020 requirements.

Mid-range

Using an integrated accounting package – there are even some free cloud-based systems such as Wave, Quickfile, Pandle and Zoho – all of which should incorporate an MTD-compliant VAT return filing mechanism.

- *Good for* businesses that are prepared to adopt a new system without anyone needing to have any accounting experience and provides the accountant with remote access.
- *Bad for* anyone who does not use a computer and is reluctant to embrace change.

Deluxe

Employing someone to prepare the accounting records using an MTD product could reap multiple benefits, but for clients using manual records this could significantly increase costs.

- *Good for* people who do not use a computer and cannot handle their own accounting. Also good by providing remote access to the accountant.
- *Bad for* anyone with low profits and unable to stand increased overheads.

- have remote access to spread work and improve time efficiency;
- monitor client performance and liabilities through the year; and
- do more than simply look after compliance by providing creative business advice and support.

That sounds good doesn't it? In any event, even without MTD it seems inevitable that, over time, business accounting will evolve towards using cloud technology and accounting software. This gives accountants flexibility on how and when they help their clients. Regular access to more accurate data means accountants can assist clients in making better decisions. It follows that MTD could be a real benefit, bringing the future forward for all of those firms prepared to help their clients through this period of change. The **Options and Benefits** table above illustrates possible routes for advisers and their clients.

Call to action

Currently, it seems that 87% of all VAT returns are submitted manually using HMRC's online dashboard, so there needs to be a huge shift to using a computerised submission method. With less than six months left before the new system is imposed on us, now is the time to be talking to any businesses that use manual processes to prepare accounts. Relatively small changes might be possible but, whatever the extent of the problem, MTD is clearly not going away so why not use the time left to make it work for you and your clients?