

All systems go: the challenges and routes to Making Tax Digital

A White Paper by Pegasus Software



First announced back in 2015, HMRC's Making Tax Digital initiative set out to revolutionise the UK's tax system, putting in place processes and procedures to improve the effectiveness and efficiency of the tax system as a whole. At its very heart lies the need for businesses to digitise their accounting processes, with a view to going some way to address the £9bn that HMRC loses each year due to tax errors. With the initial deadline of April 2019 looming large, and for businesses that have yet to begin their Making Tax Digital journey, as is the case for many SMEs, it's time to get serious about what they need to do in order to go digital.

What is Making Tax Digital?

In short, the Making Tax Digital programme requires all VAT-registered businesses to move to digital record-keeping, using software to record all VAT invoices and receipts, as well as automating VAT submissions at the end of each VAT period. The idea behind this shake-up of the UK tax system is to make the process by which businesses declare income easier and error-free, increasing both automation and transparency, and helping to prevent HMRC's aforementioned £9bn-shaped black hole.

The first phase of this pioneering initiative takes effect from 1 April 2019, affecting VAT-registered businesses whose income is over the £85k threshold. These will no longer be able to manually submit their VAT returns through the HMRC gateway. Instead, they'll need to ensure they have the right systems in place to not only comprehensively manage their digital record-keeping, but to also automatically submit their VAT returns directly from the software at the end of each VAT period.

Initially, digital records are only required for VAT purposes, with other taxes (such as corporation tax) due to be covered by the second phase of the initiative, which is pencilled in for no earlier than April 2020 at the moment. For non-VAT registered businesses, as yet, there's no legal requirement to move to digital record-keeping, but even they should be considering going digital with their accountancy processes, as it's more or less inevitable that this is the direction in which the entire UK tax system is moving.

Are there benefits to my business?

As discussed, the main benefits to HMRC of Making Tax Digital are to automate and simplify the tax system, ultimately reducing errors and lessening the amount of lost revenue each year. But are there any actual benefits to the businesses whose hands are being forced to digitise their accounting processes? Simply put, yes. The need to ensure accounting records are uploaded to the relevant authorities in real time means that they'll know where they stand with tax, making sure their tax is right first time and being able to access all their tax information online in one place. It's this up-to-date information, with the option of updated tax estimates on demand, which will enable them to plan, budget and forecast more effectively, and avoid 'surprise' tax bills, helping them to better manage their finances.

Next steps

For companies that already use a software solution to keep digital accounting records, compliance with Making Tax Digital should be relatively straightforward. Reputable software vendors are well aware of the impending changes and well placed to advise on the most suitable and efficient way forward, so shifting to software compatible with Making Tax Digital should not pose a problem.

However, for companies still using manual processes or depend on an amalgamation of disparate spreadsheets from across the business, there's no choice but to automate, and to do it soon. That's not to say there'll be no more spreadsheets; the Government has confirmed that it's still perfectly acceptable to use spreadsheets to manage information. The VAT Return, however, **must** be created directly from data in the spreadsheet and submitted electronically to HMRC via bridging software.

There are thousands of SMEs out there who don't currently have an incumbent accounting solution, but a relative degree of urgency to acquire one is required, particularly when you consider that any new system needs to be installed, bedded in and up-and-running by April 2019.

The right fit

HMRC has specified a list of 'must-haves' required for a solution to comply with Making Tax Digital obligations, and has even gone so far as to publish a list of software suppliers who are part of the pilot project, a list which is growing in length on a weekly basis. However, one size very much does not fit all, and when looking for a solution, there are a number of different factors to consider:

1. Is it easy to use?

Given the short timescales involved, it's vital that any solution you choose should be intuitive and easy to use, so users can get to grips with the new technology quickly and easily. Obviously some form of training will be required (as with any new software implementation) but with a looming deadline, getting users au fait with the technology as soon as possible is a must, with good vendors recognising this and developing intuitive, easy-to-learn software as a result.

2. Is everyone on board?

One of the most common challenges businesses face when implementing new systems is the willingness of employees to work with the new technology. The increase of millennials in the workplace has resulted in less resistance to 'digitising' processes, but for an older, more traditional workforce, resistance to technology can prove a sticking point. Again, ease of use has a big part to play here. If users realise the benefits of the new solution rather than see it as a massive disruption to their everyday working practices, any new implementation is far more likely to succeed.

3. Is it straightforward to deploy?

As there is a degree of urgency involved, the software you choose needs to be straightforward to get up and running. Not only do you need to install the solution, but you need the new systems to bed in before the April deadline, not to mention that quick and easy setup reduces extensive consultancy and implementation costs. Good suppliers will provide high levels of support and service before, during and after the sales process, to ensure that the installation goes as smoothly and as quickly as possible.

4. On-premise or in the cloud?

For some businesses, the biggest questions arise when it comes to actually managing the new software itself, in terms of who will host, manage and maintain the new technology. For many SMEs, the best option is to head for the cloud, with its lower upfront costs, reduced ongoing infrastructure costs, increased flexibility and, of course, the ability to leave system maintenance to the provider, as well as the option to scale systems up or down at relatively short notice. That's not to say that a cloud-based solution is the right choice for every business. You might already have the necessary infrastructure and skills in-house to opt for an on-premise solution, or you may prefer to host all your IT yourself, but it's definitely best practice to weigh up all the options before making a final decision.

5. Will it grow alongside my business?

Older, legacy systems have a bad (and often justified) reputation for actually hindering instead of enabling business growth. With the further phases of the Making Tax Digital initiative still somewhat of a moveable feast, flexibility is key. The best solutions out there offer the flexibility and agility to adapt in line with your business, with open architecture making it easy to add extra functionality, and modular systems and flexible ownership resulting in easily scalable solutions to support your business in whichever direction it's heading.

As we head rapidly towards the initial April 1st deadline in 2019, businesses need to act now to ensure they're ahead of the game when it comes to Making Tax Digital. This shake-up of the tax system is set to revolutionise the way businesses operate, changing processes and procedures to bring them in line with the digital economy in which we're all operating. With more changes almost inevitable over the coming years, now is the time to get the right systems in place.

To comply with Making Tax Digital obligations, your software must:

- Keep records in digital form
- Preserve these digital records in a digital form
- Create a VAT return from these digital records, digitally sending this information direct to HMRC
- Receive information from HMRC regarding business compliance with Making Tax Digital regulations and obligations via the Application Programming Interface (API)