Report: Preparing for Making Tax Digital

## Ensure your firm is ready for MTD

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Introduction

Initially mooted in March 2015 and after what feels like a couple of false starts, MTD for income tax is now full steam ahead towards mandation from April 2024. It will likely impact most of your unincorporated clients, who will see the shift from self-assessment to a new quarterly process where efficient process and collaboration will be vital.

The last couple of years have been a trying time for accounting firms and their clients, and this has rightly taken the focus of attention. With April 2024 fast approaching, and MTD not being the current priority of many, Thomson Reuters commissioned a survey last year to gain an understanding of how the profession was fairing with its preparations.

This report analyses the survey, and offers some practical tips and guidance on how to prepare clients for this new regime.

Survey respondents

Which best describes the size of the accounting firm you work for?

- Sole Practitioner — 45%
- 2–3 owners — 33%
- 4–5 owners — 8%
- 6 or more — 14%
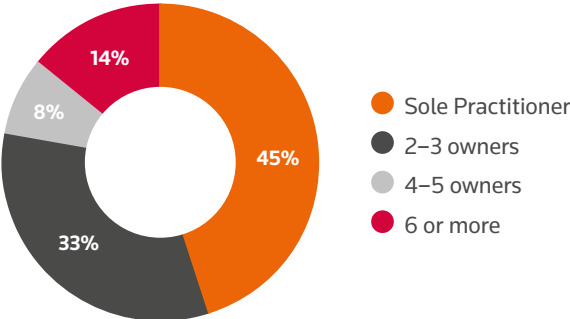
How many employees are in the firm?

- None — 21%
- 1–10 — 52%
- 11–30 — 10%
- More than 30 — 17%
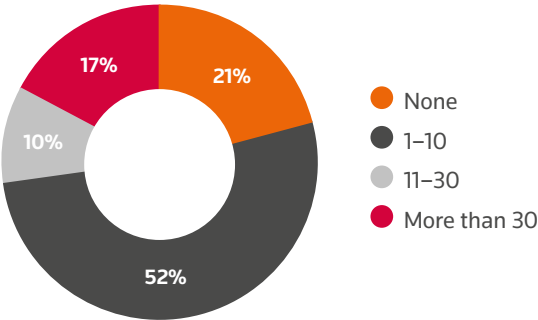
How many self-assessment clients does your firm deal with in a typical year?

- Less than 100 — 26%
- 101–200 — 25%
- 201–500 — 22%
- 501–1000 — 9%
- More than 1000 — 18%
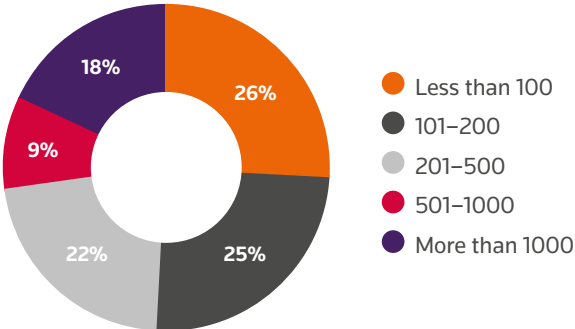
Digitisation of tax is driving tech adoption

Prior to MTD for VAT being implemented, what percentage of clients were using cloud recordkeeping?

38%	Less than 10%
16%	Between 10% and 25%
31%	Between 26% and 50%
8%	Between 51% and 75%
7%	More than 75%
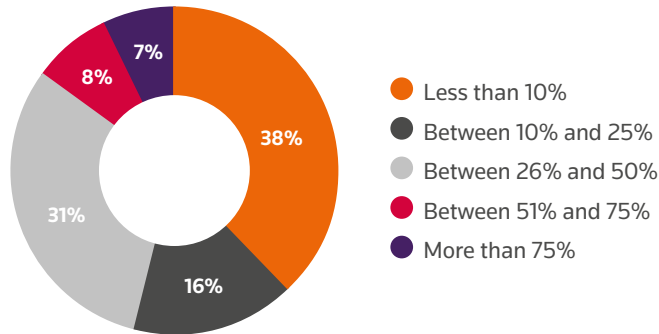
As a result of MTD for VAT being implemented, what percentage of clients now use cloud recordkeeping?

12%	Less than 10%
16%	Between 10% and 25%
22%	Between 26% and 50%
24%	Between 51% and 75%
26%	More than 75%

Given the digital record keeping and direct filing requirements of MTD for VAT, it's not surprising to see an overall increase in the number of accountants saying that their clients are now using cloud-based record keeping.

Before the initial mandation period in 2017 half of those responding stated that 25% or fewer of their clients were using cloud, this has now flipped with 24% stating more than 75% of clients are cloud enabled.
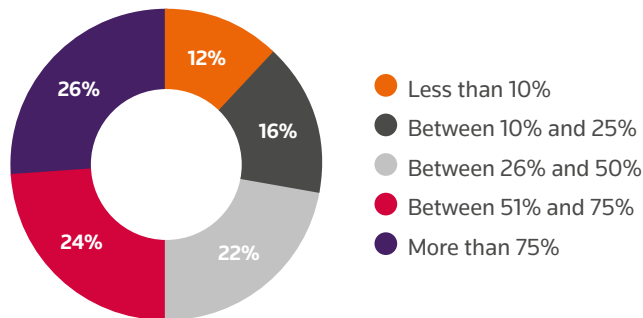
In fact, with over half of firms with 50% or more of their clients on cloud, the direct line impact is clear, with Covid-19 adding an additional recent boost to take up.

The even spread of responses to adoption also helps to quantify the upcoming challenge in moving those who fall within the next phase of MTD.

If we can assume that those not on the cloud are there because they do not currently need (or want) to be, then there are still significant numbers of self-employed and landlords for whom solutions will need to be found.

The direction is set - but value is not being felt

Notwithstanding the deferral period and the effort required by firms to implement, MTD for VAT has passed without major incident. 75% of respondents reinforce this idea by rating the transition for their VAT clients as at least 7/10.

This hasn't necessarily translated into a change in the level of support for the program of digitising the tax system, with very little difference between answers now and 2017.

Do you agree that digitising the tax system is the right approach?

16%

22%

62%
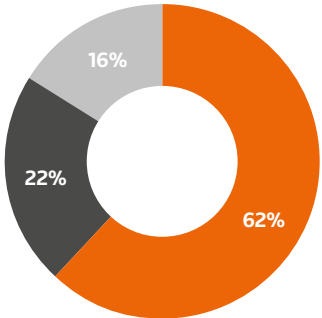
● Yes ● No ● Don't know

2017	Answer Choices	Responses
	Yes	**61%**
	No	**27%**
	Don't know	**12%**
	Total	

"It is inevitable, whether we or the clients like it or not, this is the new compliance bar."

**David Hannam
Director, DAH Accountancy Ltd**

HMRC's view that MTD for VAT has been generally successful underpins the direction of travel. However, there has been little change in the view of the profession that this is the right approach, indicating that the benefits are yet to be fully felt.

"Our solutions and services are going to be based on providing the route of least resistance and at least expense, without compromising professional standards."

David Hannam
Director, DAH Accountancy Ltd

Accountants are yet to be fully convinced

Getting under the skin of this isn't easy, but additional research with Thomson Reuters clients for this report suggests accountants feel that:

- Digitisation is a program that represents value to HMRC rather than business owners
- The benefits of having more clients on cloud and digital record keeping have not necessarily been fully realised
- MTD has created a need for more capacity in compliance services
- And, faced with a broader rollout, there is another (and perhaps) larger challenge in assisting the self employed and landlords.

Combined it points towards another significant change management project, and a period of intense review of:

- Client segmentation
- Communication and education
- Onboarding to new technology and services

Disconnect between value and service

Of significant frustration is the disconnect between what accountants think they should be providing and what HMRC is expecting.

HMRC is asking for quarterly summary updates as a way of confirming that digital record keeping is being upheld, which sits at odds with the profession who are not inclined to just post numbers without at least some review.

It also makes it difficult to justify to clients who may focus on what the service is, and what they are actually paying for. Creating proportionate services that match both client and HMRC needs will take careful consideration but should create the least friction.
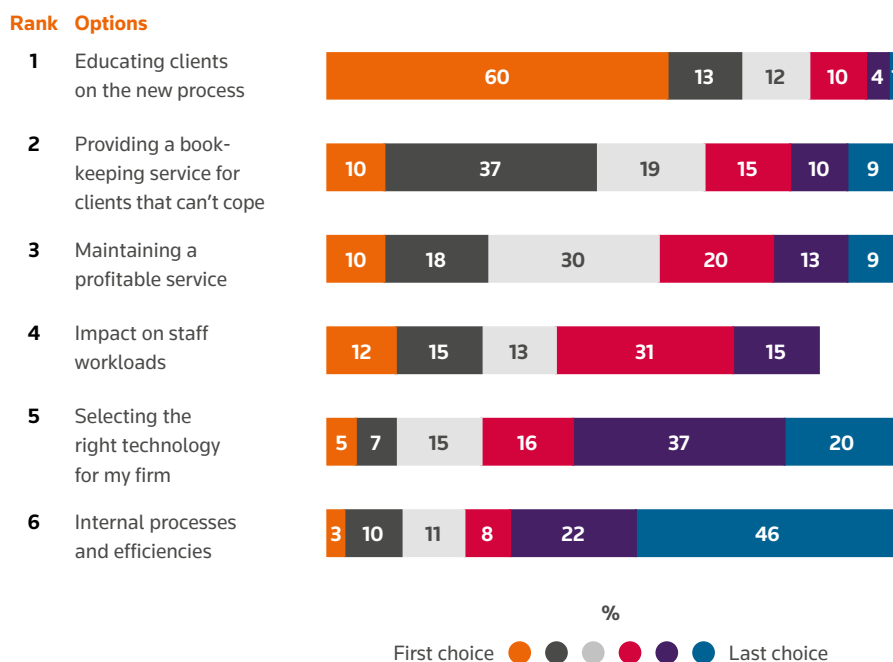
The client challenge

While most businesses will be required to use digital record keeping, the primary concerns are less about the technology but in providing the assistance, training and resources needed to manage the transition and support on an ongoing basis.

Which of the following MTD challenges are going to have the most impact on your firm (please rank in order)

Rank	Options	First choice					Last choice
1	Educating clients on the new process	60	13	12	10	4	1
2	Providing a book-keeping service for clients that can't cope	10	37	19	15	10	9
3	Maintaining a profitable service	10	18	30	20	13	9
4	Impact on staff workloads	12	15	13	31	15	
5	Selecting the right technology for my firm	5	7	15	16	37	20
6	Internal processes and efficiencies	3	10	11	8	22	46

%

First choice ● ● ● ● ● ● Last choice

The primary challenge is the need to educate clients, with increasing the provision of bookkeeping services a significant second. Selecting the right technology and concerns around the internal processes and efficiencies were ranked lowest overall.

Education and communication

Driving this is the day-to-day experience of accountants, who understand their clients and their broad spectrum of attitudes, abilities, and inclinations towards financial administration. Many of these clients are being delivered an annual service, and bringing them onboard with the new requirements therefore is a significant and crucial task.

Quality of communication from HMRC is still a recognised concern, and it should be presumed that clients will rely on their accountant to understand and find a way to comply.

Starting your own communication to clients therefore should start as soon as possible.

Bookkeeping and ongoing support

MTD for VAT also saw an increase in the uptake of bookkeeping services being offered by firms; with certain clients happy to outsource rather than contend with the requirements themselves.

The results here suggest that this trend will continue into the next phase. Given the volume of clients involved this could provide healthy fee growth potential. However, the double-edge sword is that this will only be effective if there is a high level of efficiency in data collection, and both back office systems and processes are resourced adequately.

Concerns around having to constantly chase for missing data on shorter and shorter deadlines, from those that are used to providing the information once a year, cannot be ignored. Training clients and getting them used to operating in a new way may seem like a low priority now, however it will pay dividends as the deadline approaches.

Client participation

Who, primarily will deal with the quarterly submission of income and expenses to HMRC?

- My clients will do this
- Mainly clients, I will do this for...
- Equally, or near equal
- A few clients will do this, I will do the majority
- I will do this on behalf of clients

Firms see themselves as central to ensuring the success of MTD. Reinforcing the education point, and the anticipation for more bookkeeping resources, is the level of confidence around how much their clients will take ownership for quarterly submissions.

With only 4% saying that clients will be responsible for submission, that leaves 96% who will need some involvement. 58% state that their involvement will be significant, with 13% maintaining that they will take on all responsibility.

Creating proportionate and cost effective services, with the focus on effective data collection is therefore key.

Limited impact of digital exclusion

Do you have VAT clients who were confirmed by HMRC as "Digitally Excluded"?

- 12% Yes
- 88% No
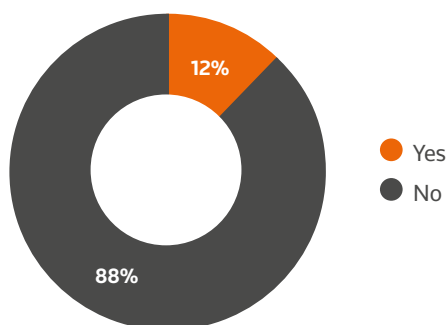
What percentage of your VAT clients are Digitally Excluded from MTD?

- 55% Less than 5%
- 18% 5%–10%
- 27% 11%–20%
- More than 20%

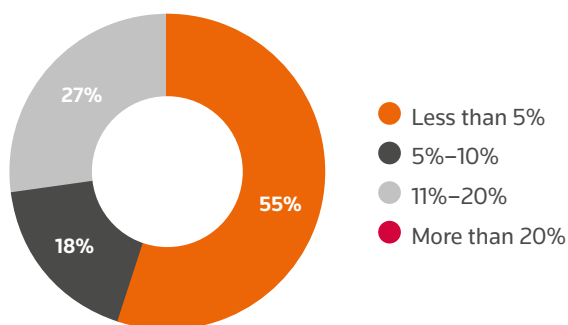MTD for VAT saw only a small number of clients successfully confirmed as being digitally excluded, with approximately 2,300 VAT businesses making successful applications.

Given the greater numbers involved in the next phase we can expect there to be more, but given the high bar set it's unlikely that the percentage accepted will vary much.

The two main solutions offered by firms to those classed as digitally excluded were:

- Taking on the bookkeeping
- Transferring paper accounts to spreadsheets and filing.

Those unsuccessful in their claim, are also likely to have fallen into the first category. Projecting forward this is likely to be another driver in the expected increase for bookkeeping services.

Other client challenges

While age is not an aspect of digital exclusion, there is a recognised generational challenge which will need to be addressed. Accountants are concerned that older clients will struggle to adapt, even to data collection tools, and may be forced into additional costs for outsourcing their bookkeeping.

There is also a feeling that certain landlords may not actually see themselves as businesses, and be unaware of their commitments under the new regime.

"HMRC makes the assumption that you have digitised clients when there are significant businesses that are in digital poverty. In order to get hands on you need to get your hands in and work on their processes and procedures."
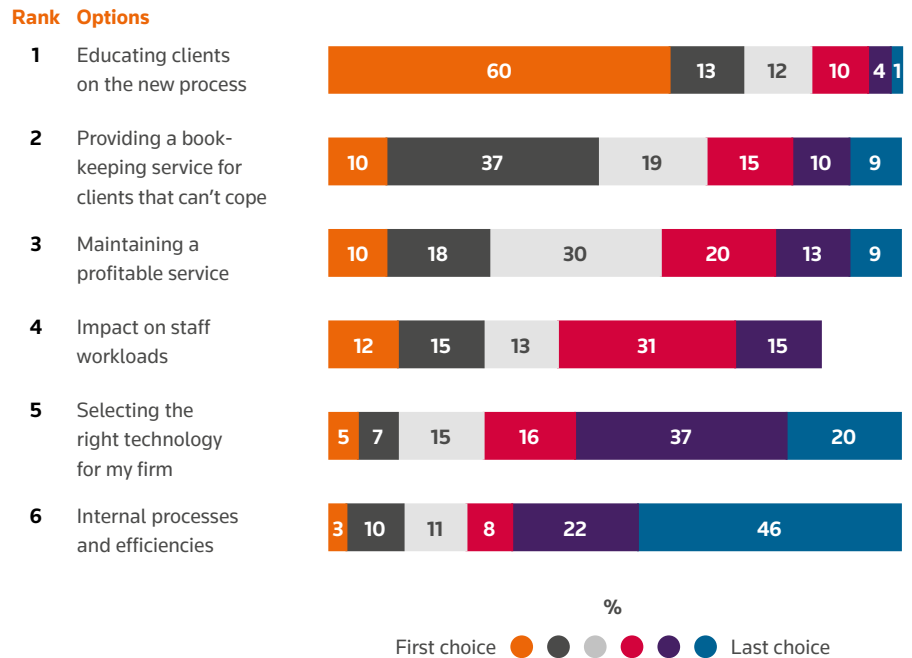
Gary Jacobs
Managing Director, Eazitax Group

The internal challenge

Which of the following MTD challenges are going to have the most impact on your firm (please rank in order)

Rank	Options						
1	Educating clients on the new process	60	13	12	10	4	1
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3	Maintaining a profitable service	10	18	30	20	13	9
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5	Selecting the right technology for my firm	5	7	15	16	37	20
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%

First choice ● ● ● ● ● ● Last choice

Accountants seem confident in their ability to get to grips with the technical and internal aspects of MTD for Income tax. Perhaps unsurprisingly after having to negotiate the impact of MTD for VAT and Covid-19 in quick succession.

However, the internal challenges remain significant and deserve early preparation to ensure the right overall approach can be crafted.

The impact on staff

Accountants are very aware of the pressure staff have been working under during a couple of years of sporadic lockdowns and providing help to clients needing a high level of support.

Coupled with a more general awareness of mental health issues, they are keen to minimise any negative impact on staff preparing for another major change management project.

They are also just as keen to avoid staff feeling like they are being faced with "four January's" a year, and highlights the value of starting sooner rather than later on a coordinated plan with clear targets.

Technology that works is a given

Selecting the right technology was ranked second from last indicating that many believe that they have some of the tech in place that they need, or are at least aware of the options.

It also signifies a more general view that technology providers will deliver.

Given that client education and bookkeeping is seen as a bigger challenge, the role of technology must be focussed on how it will support the service offering. Given that there is likely to be a broad range of clients to accommodate, having a number of options may be required.

Choosing your technology partner should therefore be beyond reviewing basic functionality, but also take into account those that are willing and able to work with you through the entire process of review, implementation, and ongoing support.

Efficiency in an end-to-end process

Internal efficiency and processes was scored the lowest. However, confidence that the solution will be there places additional emphasis on having a strong supplier.
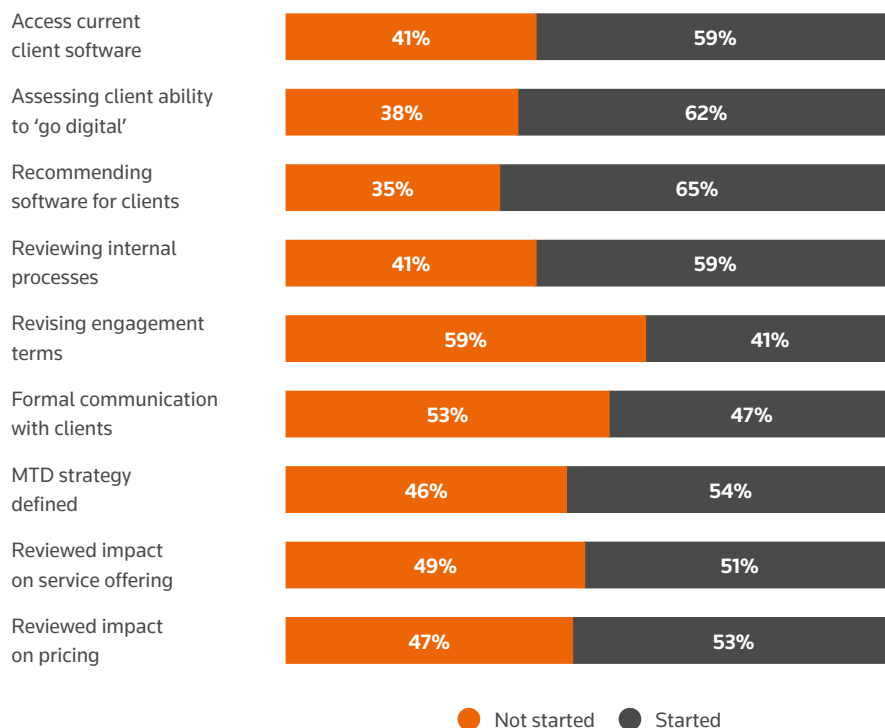
A focus on client data collection, although a major component should also be seen as part of the overall process which will need to include review, repair and filing with HMRC. Solutions which minimise manual processing should be prioritised, as should those that are designed to work with your team around the structure of services you intend to provide.

How are you preparing?

Key tasks haven't started for some

Ahead of mandation, which of the following activities are being undertaken

Activity	Not started	Started
Access current client software	41%	59%
Assessing client ability to 'go digital'	38%	62%
Recommending software for clients	35%	65%
Reviewing internal processes	41%	59%
Revising engagement terms	59%	41%
Formal communication with clients	53%	47%
MTD strategy defined	46%	54%
Reviewed impact on service offering	49%	51%
Reviewed impact on pricing	47%	53%

● Not started ● Started

"Focus on the user experience of your client - painting the story for your client now will help make it much easier for them in the future, and for you to be the hero"

**Gary Jacobs
Managing Director, Eazitax Group**

Preparations are underway, but the picture is very mixed and many firms will find themselves with much still to do at this stage.

The experience of MTD for VAT has encouraged early activity, and it is likely that some of the key lessons learnt during that period are helping here too.

Although there is on the surface a fairly even split between those that have and have not started on key activities, the true picture is more mixed. The detail reveals that firms are starting in different places, with some significantly more ahead than others.

The reality is that nearly all are starting to make some level of progress in at least one or two areas, which is encouraging given the remaining timeline. However, the fact remains that this still leaves much to be done.

Taking the opportunity to reflect, plan and coordinate at this stage is highly recommended to give you, your firm and your clients the best possible runway to implementation and success.

Taking the next steps

Standing back from the data, the core activities that should be prioritised become clear:

1. Identifying and categorising clients

2. Engagement and communication

3. Onboarding to the technology and service

Even if it's not easy to create a structured plan around each of these, there are some key tasks that can be considered. Over the next few pages you will find some useful checklists which should help break these down in a manageable format, and details of what additional resources Thomson Reuters can provide.

2022: The essential tasks

Identifying and categorising clients

Purpose: Grouping clients together, so you can plan for communications, appropriate services, and software.

1) Identify each client who falls into one of these initial categories:

- VAT registered sole traders and partnerships
    - This group should already be used to digital record keeping
- Non-VAT registered traders and partnerships
    - This group may not yet be aligned to the digital record keeping requirements
- Landlords
    - Generally, smaller landlords are less likely to view themselves as running a business, and won't be prepared for frequent recordkeeping

Thomson Reuters can help you query your Digita Personal Tax database to obtain these client types.

2) Assess each client for how you understand their inclination or ability to deal with the ongoing requirements.

- VAT Registered traders
    - Already digital record keeping
    - Digitally excluded (for VAT)
      (follow same path for MTD for income tax)
- Non-VAT Registered traders
    - Suitable for software
    - Will require bookkeeping service
- Landlords
    - Suitable for software
    - Will require bookkeeping service

3) Define your services, add each client to the one you think they will require

- Client collects and files updates - No support required

- Client collects data, we review and file

- Client send all data to us, we log, review and file

What will be required for each in order to deliver?

Engagement and communication

Purpose: To educate and inform clients of their responsibilities and the options you are recommending for them.

Suggested 2022 plan

These are ideas which can help to formulate your communication plan. Focusing on what can be done in 2021 will help you start as early as possible, and lodge with clients that action will need to be taken.

Website

- Introduction to MTD page

- Factsheets

- FAQ - the very top level

- Short videos

Client communications

- Plan series of emails that can be sent to clients every quarter

- These can cover - the requirements, their responsibilities, how you can help

- Be clear how it might impact them and provide links to your website or other resources

Social media

- Use your social media posts to highlight key parts of the new regulations

- Pose questions that you can answer on your website

- Encourage clients and prospects to contact you for more information

- Position yourself as 'MTD Ready'

Regular touch points

- Ensure the new requirements are discussed at client meetings, or when they come into the office

- Staff should be trained to tell clients if they pop into the office and place leaflets or printouts with the core details on that can be given to everyone

- Add details or a hook in your email signatures

- Include in your phone or answer service

Software introduction

- Decide on your tech approach as soon as you feel comfortable, create easy to distribute summaries that can be handed out

- Focus on why it is required, how it will help, and simplicity to use

- Agree to provide one-to-one training where required - these could be online.

Onboarding to the technology/service

Choosing the right technology

- Using your client categories and service proposition, map what your tech requirement might be

- Within each client category, are there requirements in addition to MTD recordkeeping e.g. invoicing, bank feeds, etc

Identify a small selection or products that you're prepared to support for MTD

- Simple transaction recorders

- More sophisticated data collection tools

- Simple bookkeeping

Approach - who, what, when, how?

- For each client, map out what you believe your recommended solution should be

- Establish how you would like to introduce your recommendation to each client

- Agree a time frame in which you will contact each initially

- By end 2022 - Your aim should be to agree with the client a timeframe to move to a compliant software or service.

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