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ARE YOU OVER-RELIANT ON SPREADSHEETS?

STRIKE THE RIGHT BALANCE BETWEEN TAX TECHNOLOGY AND EXCEL

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Regulatory change, new requirements and increased scrutiny from tax authorities across the globe means that organisations are under greater pressure than ever before. Interestingly, UK Tax Authorities, HMRC, recently estimated a £10 billion VAT loss for the tax year, 2018-2019 and the UK won't be the only country experiencing this void in tax payments. Through new digital reporting regulations like HMRC's Making Tax Digital (MTD) in the UK, Spain's Suministro Inmediato de Información (SII), Germany's Generally Accepted Principles of Data Access and Auditability of Digital Documents (GDPdU) and Standard Audit File for Tax (SAF-T), the authorities are demanding more information, more frequently. Such initiatives enable tax authorities to detect and combat fraud, remotely and via real time audits. It's a high-stakes, high risk world where doing more with less has become a necessity and the ramifications of getting it wrong are greater than ever. So why are so many businesses still relying on Microsoft Excel for the preparation of their VAT returns?

Microsoft Excel has been a standard in offices all around the world, for many years. In fact, it's hard to imagine a business that does not use spreadsheets to handle its data and analytics. While Microsoft Excel has clear benefits and times for use, reports with errors derived from over-reliance or misuse of spreadsheets are commonplace and, for some taxes, this can have a direct impact on the company's profit and loss account.

The majority of tax managers (60%) who took part in our 2020 European Tax Technology Survey felt that by eliminating manual processes wherever possible, it will be very likely that they will be able to give more focus to value-added tasks. Best-in-class tax departments incorporate tax technology designed to meet the complex needs of accounting professionals, while supporting the appropriate use of spreadsheets.

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Table of contents

CONSEQUENCES

A few years ago, a leading UK retailer announced that its quarterly sales had grown by more than 1 percent. However, just a few hours later, it issued a statement saying that sales had in fact, fallen. This inaccuracy led to a share price drop and numerous articles spreading damaging news of the company's error. The mistake was put down to a summing miscalculation, a simple double-counting mishap in the spreadsheet. An easy-to-make, small slip it might have been, but it led to a damaging outcome for the company's quarterly performance.

This is not the only time in recent years that a major company's unforced spreadsheet error had a severe impact. A major infrastructure and business services company suffered a £8.6m (US$10.3m) error because of an actuary's spreadsheet. Elsewhere, a UK fashion retailer lost over a third of its market capitalisation within 24 hours because debit and credit signs were mixed up in a spreadsheet. Similarly, a global financial services company reportedly lost £250m (US$ 300m) because of a mistake in one of its spreadsheets, which could have been as simple as leaving a hard-coded figure unchanged.

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This reliance on spreadsheets for VAT, or any tax and accounting compliance for that matter, means that businesses are running the gauntlet. Can they be sure that those preparing such returns have interpreted the law correctly? And can people be expected to know enough to ensure that the company in question is compliant across multiple jurisdictions? The risk of incorrectly entering data into the wrong boxes on a tax return could result not only in significant financial loss but also penalties. As shown by the above examples, the over-reliance on spreadsheets is not only embarrassing, it's costly too.

Investing in a suitable software solution that comes with tried and tested logic for regulatory requirements, will not only ensure businesses remain compliant but also free up time for teams to focus on more valuable work.

AN EXCELLENT TOOL, USED INCORRECTLY

Significantly, it is the way that spreadsheets are relied upon which is problematic, not the functionality of the software itself. Microsoft Excel is popular because it is an excellent spreadsheet application. It is easy to use for many functions, from forecasting to analysis, and in some cases, for the entire VAT return process. Nevertheless, errors occur when used in the wrong ways. Spreadsheets can support professional tax and accounting software and enhance companies' operations; however, it should not be central to them, as there is a proven risk of errors when businesses place too heavy a dependency on them for tax and accounting computations.

So why is Microsoft Excel routinely applied outside of its capabilities in tax and accounting practice? Its popularity lies partly in how it tends to come at no additional purchase cost to the business and is a universal application that is recognised, editable and accessible by almost all users. Excel is customisable to a company's specific requirements and can be pushed to handle the data of a large organisation. The workbooks may be unwieldy, numerous and complex, but an individual user knows their way around them, often because they created the formulae and tables themselves. Not infrequently, the spreadsheet is unique to an individual or a small group of employees. They know how to work it and have created it specifically for their needs. In fact, the complexity of their spreadsheets may be a point of pride and security, knowing that they are of great value since only they understand how to work them.

However, the use of Microsoft Excel in this fashion has limits. What happens if the only person who knows how to use the spreadsheet leaves the organisation? What happens if someone else makes an unknown change? How secure is the file location? Who knows how many versions of the spreadsheet exist in the company and which version is current and reliable? Errors can easily occur and time wasted on re-learning the modifications made to a spreadsheet. On top of this, there are no debugging tools in Microsoft Excel, meaning that significant mistakes can remain hidden. Hours can be spent checking formulae in spreadsheets, making sure that links are functional. Furthermore, when a user finds an error or a spreadsheet requires an adjustment to one of the worksheets, the process of assessing the impact upon other linked workbooks or worksheets is equally time-consuming. In short, the way that many tax users rely on spreadsheets is not only time consuming but also high-risk, frequently error-prone and resource intensive. Every time a user makes a change, he or she creates a new risk.

REDUCE THE RISK

Increasingly, companies are turning to professional tax and accounting software to manage spreadsheet risk and to meet the challenges of global reporting and compliance. As HMRC advises once data has been entered into software used to keep and maintain digital records, any further transfer, recapture or modification of that data must take place using digital links. Each piece of software must be digitally linked to other pieces of software to create a traceable digital journey.

And this is where the use of Microsoft Excel becomes more than questionable. It follows that transferring data manually within or between different parts of a set of software programs, products or applications that make up functional compatible software is not acceptable under MTD.

> **“Companies are turning to professional tax and accounting software to manage spreadsheet risk and to meet the challenges of global reporting and compliance.”**

HMRC does not consider the use of ‘cut and paste’ or ‘copy and paste’ to select and move information, either within a software program or between software programs, to be a digital link.

Practices have changed, and businesses need to step away from the old methods focused on spreadsheets. HMRC’s MTD and Germany’s GDPdU mean that companies now have to move away from manual processes and adopt automated solutions for tax and accounting practices. And it’s not just in Europe, the change is happening across the globe. For example, in the United States, corporate users have taken steps to reduce over-reliance on spreadsheets, labelling their use as a major risk for listed companies following the Sarbanes-Oxley Act, which lawmakers implemented after the corporate accounting scandal and ensuing collapse of Enron.

STAY COMPLIANT BY USING TAX TECHNOLOGY

The use of specialist software helps to formalise a compliance process that is repeatable and auditable across an organisation, thereby reducing the risk of errors, which can result in financial penalties and substantial fines. The added benefit is that an automated process can save time and make the reporting process less laborious and more efficient. Unlike spreadsheets, professional software tracks and traces any changes made by one person by time-stamping each step of the process to maintain version control. Templates and uniform formats mean that there is not just one key person who understands the data. Every authorised user can see the document's history.

With a truly enterprise-level tax platform, compliance is made faster and less capital intensive — the documents update automatically with the latest legislative changes in tax, ensuring the most recent tax return form is available for the compliance process. This removes the risk of relying on one person or a team to keep abreast of tax regulatory updates. Data can also seamlessly flow across the tax and accounting processes, e.g., from statutory reporting to pre-populate the corporate tax return, and from provision and tax returns to automatically feed into Country-by-Country reports. In turn, users can then spend more time adding value elsewhere in the business.

STAY COMPLIANT BY USING TAX TECHNOLOGY

It is the art of staying compliant that will be especially testing for organisations in this global digital age. Departments are facing a huge rise in complexity as transactions increase in volume, become more international and face mounting regulation. Companies that buy and sell across multiple countries face a substantial challenge to keep up to date with constantly changing legislation. They need a change made on one side of the world to be updated on the other. Yet, while staying compliant gets harder, tax and accounting are becoming more of a public issue. The stakes are getting higher when it comes to reporting. Tax is now on the front pages as the public expects to see corporations paying their fair share of profits. Accounting issues can reach the mainstream news agenda as well, as the companies mentioned above have found.

Anything that has the possibility to dramatically shift the tax compliance landscape, such as additional transparency requirements, is top among tax managers' concerns according to our 2020 European Corporate Tax Managers Survey.

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Additional software will become ever more necessary to confront these difficulties as companies realise that spreadsheets alone cannot meet their demands. The use of specialist software is becoming a necessity. HMRC now requires iXBRL tagging on the accounts and tax computations of all companies. When professional software is used in conjunction with spreadsheets, the tagging can be done automatically, saving time and money compared to manual input.

A COMPLIMENTARY TOOLSET

Professional tax software does not replace spreadsheets; rather, they complement one another. HMRC does not say businesses can't use Excel at all for MTD, however, the best practice is one where companies understand where it is that spreadsheets perform well, then use them for these areas to support more specialised software. Organisations need to be mindful that legislation from HMRC, and other tax authorities for that matter, are framed in such a way that any large, complex and multi-national as well as multi-departmental enterprises should no longer rely on Microsoft Excel if they want to ensure that they are MTD compliant.

Microsoft Excel can perform a myriad of functions; however, one should not be to handle the entirety of a multinational corporation's transactional data. Once other software has processed these data, then Microsoft Excel can manipulate the output to meet various needs. When this happens, then firms will maximise the benefits of Microsoft Excel and professional software. These benefits that come from tax and accounting software do not simply concern the reduction of errors and time but extend to minimising risk and cost. Most of all, the use of specialised software in tandem with spreadsheets will meet a company's global, digital needs. For example, certain VAT calculations such as Capital Goods Schemes or Partial Exemption calculations may still be carried out in Excel. At one level, companies that are still using Microsoft Excel by itself for their core processing are being inefficient. At a higher level, they risk finding themselves in the news, suffering significant financial loss from an error they could have prevented with the use of professional tax and accounting software. It is time to introduce sound audit trails and move away from the 'copy and paste' culture.

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