The silver lining in the Cloud

General Features OMB



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Dale Simpson provides a practitioner’s view

Key Points

What is the issue?

The MTD proposals are changing the fundamental way tax professionals interact both with their clients and with HMRC.

What does it mean to me?

We have implemented a number of initiatives to ensure that both our practice and our clients are prepared for this paradigm shift.

What can I take away?

Now is the time to ensure that the MTD proposals bring your practice opportunities.

I am a partner with Thomas Westcott, a practice which is based in the West country with offices covering Devon and Somerset. Although we are ranked as a top 50 UK practice, the vast majority of our clients are SMEs that are owner managed businesses. We regarded MTD as having the potential to be a life-changing event for professional practices and their clients. With this in mind we started a MTD working party, which I chair, and I joined the CIOT digitalisation and agent strategy working group. My firm felt it was essential to be proactive and ensure that our clients were kept aware of what was happening with MTD, how it would impact on them and how Thomas Westcott could help them through the implementation phase as efficiently as possible. The homepage of our website has links to cloud accounting, MTD and digital news to provide updates and client awareness. To ensure that clients who did not or could not visit our website did not miss these updates, our newsletter contained MTD articles and leaflets explaining MTD and cloud accounting were published and distributed. We also ran a series of seminars at strategic locations in our area.

One of our main recommendations to our clients has been to convert their bookkeeping systems onto one of the cloud accounting packages which the software producers have been working on to make MTD compliant. We see many benefits with these packages. They provide a clear overview of a client’s business by creating sales invoices, managing expenses and creating links to their bank accounts to give a clear real-time overview of their financial position. There is ready accessibility – providing a client has an internet connection they can access financial records at any time and on any device. The information is shareable and, as a practice, we can see their records on a real-time basis and help them deal with problems they may encounter dealing with certain transactions. With automatic updates and backups there is no need to buy or install updates and gone are the dangers of losing information by not having secure backup data. With apps to connect to other software, our clients are able to complete integration and the intelligent software recognises and learns different types of transactions to speed up input time.

Choosing the correct software for clients is extremely important. In the South West there are some ‘digitally challenged’ geographical areas with either weak or unstable internet signals. Although these clients’ internet signals may cope with submitting VAT returns to HMRC via the API it is either not strong enough or not stable enough to run a cloud accounting package on. Therefore, for some clients, an MTD compliant desktop solution will provide the right answer.

Staff training also plays an important part in readying our practice for MTD. They have been regularly updated on the MTD implementation programme. Office champions have been trained to help clients choose the most appropriate package for their business, install these and train them how to use the software. We’ve also discussed how MTD is likely to change staffing roles in the longer term.

All in all, a considerable amount of time and effort has been invested into getting our practice and our clients ready for the implementation of MTD. The deferral of the MTD timetable has been welcomed by the majority of practitioners and it should ensure an implementation timetable which is carefully progressed rather than hurried and in danger of falling into chaos. Like many of our professional colleagues, Thomas Westcott believes that digitalisation of the tax system is the correct approach and we must make best use of the deferment period by continuing to prepare ourselves and our clients for MTD.

A substantial time cost has already been expended in preparing ourselves and our clients for MTD. As a firm we will continue to make our clients aware of the changes that will affect them and how we can best help them to manage these changes. Client communication is key to good practice. It is far better to be in the forefront of digital development rather than have clients reading mailshots or business articles composed by competitor firms. We prefer our clients to hear it first hand from ourselves. It is important to reach out to clients who are unlikely to read website articles, social media postings or information emails. To this extent, we have recently sent out two flyers – one dealing with the changes in focus on MTD and the other dealing with digital accounting. These flyers have received an excellent response and more clients are seeing the benefit of bringing their accounting systems up to date and entering the digital world.

The change of focus has, of course, reduced the number of clients who will be affected by the first staging date for MTD as it will be restricted to businesses with a turnover in excess of £85,000 and clients which are VAT registered. Nevertheless, it

is surprising how many of these clients are still left to convert either from manual records or from old software which will not be MTD compliant. It is interesting that only 12% of businesses currently submit their VAT returns directly from their accounting software. This does mean that the significant majority are currently filing VAT returns through HMRC's portal and that a large proportion of VAT registered clients will need to ensure that they have made changes to their accounting systems before April 2019.

The importance of 'Know Your Client' to enable the firm to concentrate on those where advice is most needed means ensuring that the firm's database can readily provide the following information:

- The level of turnover for the business and whether or not it is VAT registered.
- The type of records maintained and whether these are manual or digital.
- If accounting software is being used, which package is currently in use and whether it will be MTD compliant.
- Whether VAT returns are submitted directly from the accounting software to HMRC.
- What VAT special schemes, if any, are relevant to the business.

The software producers have a huge challenge to ready their packages for the nuances of VAT such as partial exemption, second-hand goods scheme, flat rate scheme and capital goods scheme. Not only will mandating for MTD VAT cover the SME businesses which we deal with, but it will also include large corporate businesses. The latter are often complex businesses running their bookkeeping through software packages specifically written for management of their businesses. What benefits are there for businesses and HMRC to mandate them to use MTD compliant software? Many businesses see this as being of little or no benefit to either party and that it will be costly, time-consuming and disruptive to implement. The other worry is the uncertainty of MTD in relation to corporation tax and clarity for these requirements is needed urgently. Will these concerns and uncertainties be the cause of another U-turn for MTD? Only time will tell and, in the meantime, we must continue to prepare ourselves as a professional practice and to ensure that our clients will be best served from both a statutory compliance point of view and from a business advisory point of view.

It is important that professional practices do not just think about MTD for VAT with an April 2019 staging date. Although we do not have a fixed staging date for income

tax, we know that this will not be before April 2020. This means that HMRC now have around two and a half years to develop and test the technology for MTD. It is dangerous to assume that MTD for businesses is either a long way into the future or to anticipate that there will be a further deferment for income tax. With this in mind, Thomas Westcott will be ensuring that its client base, partners and staff of the practice are well prepared for the digital world.

For those clients whom we regard the cloud accounting packages to be suitable we will continue to encourage them to convert their bookkeeping onto these packages. Not only will this provide them with the benefits specified above, it will also enable them to become MTD compliant if and when mandated to do so. For a proactive professional practice real time access to client's financial records enables an increased level of advisory work with their clients. Our message to clients who are not already there is that it's time to bring their business records into the 21st century, using software which has been designed to help them maintain their records and manage their finances efficiently and effectively. As predicted by Philip Hammond in his Budget speech, the digital revolution will provide a wealth of opportunity to those willing to grasp the challenge. We have taken these measures to ensure that our practice is ready to make the most of these opportunities, and we recommend that you do the same with yours.