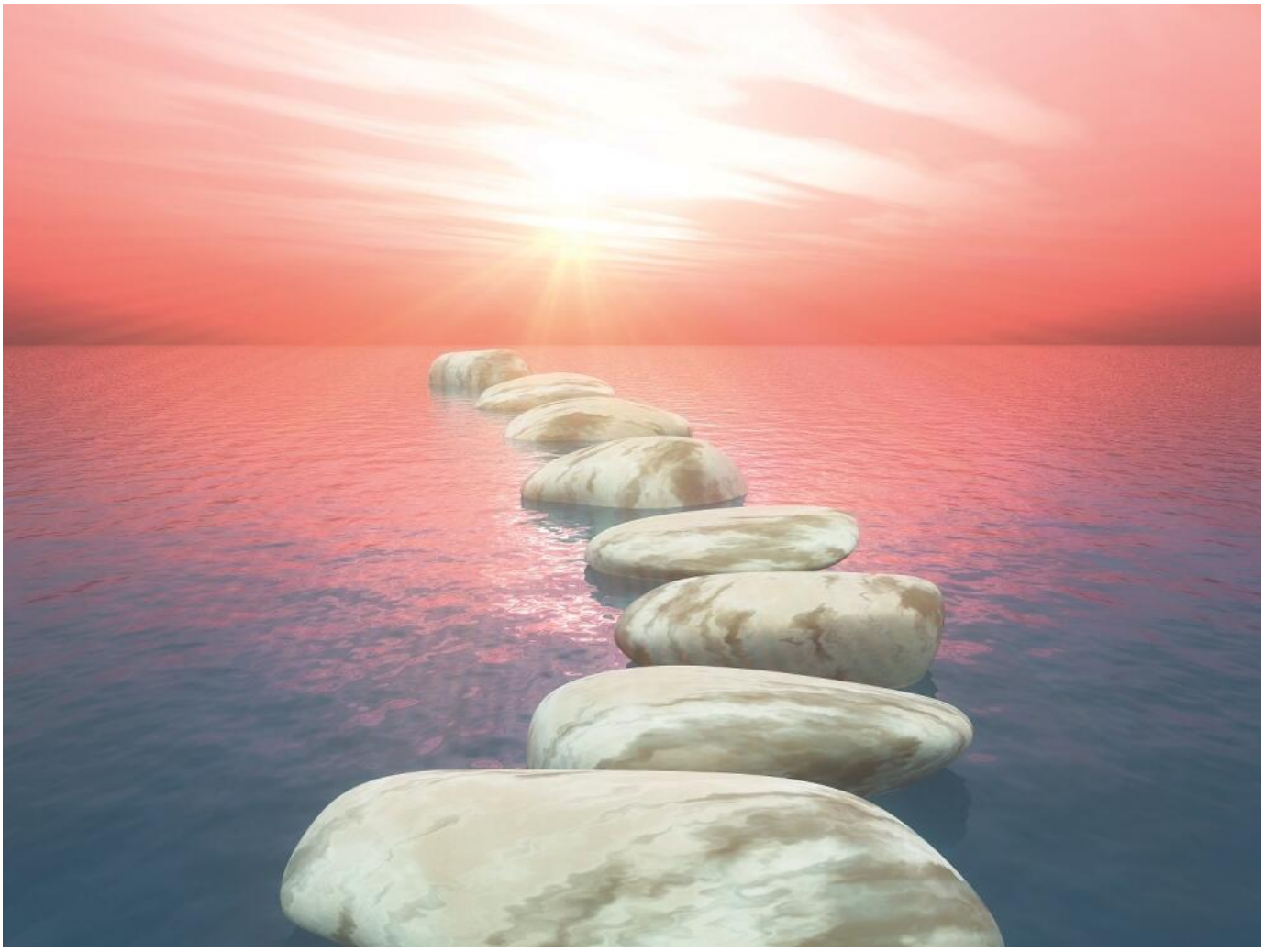
The steps to take

Indirect Tax | Large Corporate | OMB



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Dale Simpson provides a practitioner's view on how firms can ensure they're ready for Making Tax Digital

Key Points

What is the issue?

MTD for VAT is fast approaching. As with any new system there will undoubtedly be glitches to deal with and some clients will find the transition to the new system somewhat easier than others.

What does it mean to me?

As practitioners we are going to need to be ready to handle this and to adapt our professional practices in order to make the most of the opportunities which a digital revolution will provide.

What can I take away?

Training of staff and clients has played an important part in getting ready for MTD for VAT. It's also important to consider the specific needs of your clients and any support they may require.

My last article on a practitioner's view of Making Tax Digital was published in the February 2018 issue of *Tax Adviser*. In that article I encouraged practitioners to meet the challenge of the digital revolution and make the most of the wealth of opportunity that this will provide. I hope that since then you have made significant progress in getting your practice and your clients ready for implementation of MTD for VAT. In this article I will look at the steps that my firm, Thomas Westcott, has taken and what matters need to be considered in the run up to April 2019.

I am writing this article at the beginning of August, when there are eight months to go until implementation date. For many practitioners they will be extremely busy preparing clients' self-assessment returns and accounts for incorporated traders during November, December and January. In practical terms this may reduce the amount of time available for getting ready for MTD.

Knowing your client

One of the key factors we identified was to ensure that there was readily available access to Know Your Client information across the practice. A database was built up from which we could identify the clients who were in most urgent need of help. We have naturally focused on clients who are already VAT registered or that are likely to be VAT registered for implementation date. Some of our clients are voluntarily registered for VAT and their turnover falls below the compulsory registration limit of

£85,000. They will not, therefore, be mandated to comply with MTD.

We then recorded on our MTD database what type of records are kept by the client. It was quite surprising to learn what proportion of our client base are still keeping manual records. For those clients who keep digital records we then extended the database to show what software is being used, is the supplier on the list provided by HM Revenue and Customs that have tested their products in HMRC's test environment and have already demonstrated a prototype of their software to HMRC? Many clients have traditionally used Sage packages and, for these, it is important to know whether they are running an up to date version which will accept the MTD download.

Identifying their needs

In the South West, there are geographical areas which either have a poor level of broadband or have a connection which is not stable enough to support Cloud Accounting packages. Some of our clients with poor or unreliable broadband may be able to cope with a desktop package which is capable of sending a VAT return to HMRC using the API. This factor will need to be considered when determining what software package is suitable for which clients. Also considered is what method is used by the clients to submit their VAT returns to HMRC. Only a small percentage already do this directly from their accounting software. Some enter the data directly, using the government gateway. There is a significant proportion of clients where Thomas Westcott forward the VAT return on behalf of the client. It is anticipated that many of the clients in this group will wish Thomas Westcott to maintain their accounting records for them and submit a VAT return to HMRC on their behalf. All of these factors are important in deciding which clients need urgent attention in preparation of MTD for VAT.

The other factor in assessing the needs of clients is to be clear which clients operate special schemes for VAT and how they perform scheme calculations. Many will be using spreadsheets to deal with factors such as partial exemption. Ultimately these clients will require digital linking from their main accounting software to an API enabled spreadsheet (noting the one-year soft landing). Many of these clients will require help with this part of processing and submitting their VAT returns.

Having assessed the likely needs of our clients for assisting in the preparation of MTD for VAT we saw a need to monitor the process. With more than 20 partners

dealing with over 1,200 clients identified as in urgent need of help with MTD operation, it was important to ensure that there were no pockets of client base which were falling behind in this process.

A readily accessible spreadsheet was saved centrally, where the progress markers are stored to show when a client was contacted, which accounting package was agreed to be the most suitable, when the package was installed and when the client completed training on using the package. This spreadsheet is then monitored to ensure that we keep on schedule for implementation.

Keeping them in the know

Training of staff and clients has played an important part in getting ready for MTD for VAT. All accounts staff have been familiarised with the main packages which will be in use: QuickBooks and Xero for Cloud Accounting and Sage for desktops. They have regularly been kept up to date with progress on MTD implementation and the requirements of the MTD legislation through in-house training. We have kept our clients up to date on MTD and, in doing so, have recognised the need to reach clients in different ways. Many clients are digitally aware and prefer to receive information in this format. Those clients have been kept up to date using our e-newsletter, website articles and a series of short videos. Each of the videos ran for between three and five minutes and covered topics such as the implementation timetable, basic MTD requirements, digital links between software programmes, spreadsheets and maintenance of client records. There are also videos to help clients understand Cloud Accounting software, desktop software and discussing which type of software package will be the most suitable for them. It was felt that it was important to be aware that some of our clients are digitally challenged either because of poor signal levels or lack of use of digital devices and software. These clients have been kept up to date using hardcopy newsletters, seminars and face-to-face meetings.

The advantages

There has been an encouraging response to the Cloud Accounting products, both from staff and clients. Many have commented on the software being user-friendly, intuitive to use and time-efficient. Clients have also commented on some of the other advantages of Cloud Accounting products such as it being cost-effective, automatic updating of software so that they are always using the latest version,

ready accessibility and the storage of backup data.

Digital links are clearly going to be an important feature of MTD for some of our clients. For example, there will be some with a single VAT registration that maintain accounting records at different parts of their business. They use a spreadsheet to consolidate information from the separate parts of their business in order to prepare the VAT return. Spreadsheets are also used where clients are operating special VAT schemes such as partial exemptions. Transaction summaries are then transferred onto a spreadsheet to carry out the necessary adjustments required to complete the VAT return. Careful thought needs to be given both to API enabling for their spreadsheets and making sure that the transfers between their accounting software and spreadsheets are carried out digitally once the soft landing period has ended in April 2020.

MTD requirements

HMRC's VAT notice for MTD was published on 13 July 2018. There were no great surprises in this document but there are some useful examples of what HMRC are expecting from taxpayers to comply with MTD. Clients need to be are aware of these requirements, especially where some guidance is identified as having force of law as a statutory regulation. This has generated some Frequently Asked Questions and we are ensuring that staff and partners are aware of how to answer these so that there is a consistent response to clients. The FAQs include such matters as:

- What are APIs?
- Can I use spreadsheets?
- What is a digital link?
- I am VAT registered but my turnover is less than £85,000. Do I have to comply with MTD? I am VAT registered but my turnover has fallen below £85,000. Do I need to comply with MTD?
- My business is partially exempt from VAT. How do I deal with the adjustments under MTD?

The transition

MTD for VAT is fast approaching. As with any new system there will undoubtedly be glitches to deal with and some clients will find the transition to the new system somewhat easier than others. However, I am reasonably confident that transition

onto MTD for VAT will be relatively straightforward for the majority of our clients.

What we then need to prepare for is the next stage in MTD. Could there be a reduction in the compulsory registration threshold for VAT? If it is reduced this will, of course, bring many smaller businesses into the MTD for VAT requirements.

A successful transition of MTD for VAT will undoubtedly encourage HMRC and the government to bring in MTD for income tax for unincorporated traders and landlords. I am sure that 1 April 2019 heralds the start of a much fuller programme of transition into MTD. As practitioners we are going to need to be ready to handle this and to adapt our professional practices in order to make the most of the opportunities which a digital revolution will provide.