Changing the game

General Features



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Georgiana Head looks at how the tax profession will change as a result of the Making Tax Digital agenda

Key Points

What is the issue?

The tax profession is undergoing a tremendous amount of change as a result of the MTD agenda.

What does it mean to me?

The MTD proposals are on the mind of every tax adviser, and it is time to start preparing.

What can I take away?

Most direct tax advisers will have to rethink how they brand their practices and what added value they bring to clients.

In the March 2015 budget the then Chancellor George Osborne announced the demise of the ‘complex, costly and time consuming’ tax return. He promised a ‘revolutionary simplification for tax collection’ and the plan to Make Tax Digital (MTD). Two years later the tax profession is still wrestling with the impact of MTD and getting their clients ready for the brave new world of digitalisation. Now is a good time to take stock of how MTD is likely to impact the tax profession and how we can ‘future proof’ our tax departments and our careers against it.

So what will the tax profession look like after 2020 when the last tranche of returns has gone digital and we are all working from our digital tax accounts?

Added value

Most direct tax advisers will have to rethink how they brand their practices and what added value they bring to clients, after an initial flurry of work getting clients ‘online’ and used to quarterly reporting it will be hard to sell tax compliance and tax return preparation as a key service. The idea of digitalisation is that HMRC effectively create the return for the client from the feeds that they receive from banks etc. creating real time reporting which includes quarterly payments and in an ideal world the demise of under and over payments. The ATT or CTA qualified adviser will now have to check figures from HMRC rather than providing them to HMRC. In reality this may mean the adviser probably still has to create a return or at least a calculation to be able to check HMRC’s figures – but it will be hard to sell this to a client – especially for the same fee as a tax return.

Modern practices have already looked at what they sell to clients. Ebrahim Sidat MD of AMS Accountants Group explains: ‘This is really the Kodak moment for the tax

profession, we need to learn from Kodak – it was one of their own engineers, Stephen Sasson, who invented the digital camera but the marketing and business development teams wouldn't let them market it – which led to Kodak filing for Chapter 11 Bankruptcy in January 2012. At AMS Accountants Group, we are Platinum partners of Xero and Receipt Bank and we have a large budget for investment into technology. We even have a staff reward scheme that incentivises our staff to come up with innovative and efficient processes which will streamline our business. We are encouraging our clients to make similar investments into their businesses to be ready in advance for digitalisation. Our view is that our processes and systems, coupled with our skilled tax team will become adept at recognising mistakes in HMRC's algorithms. This will allow our tax team to focus on the advisory services which will add value to our client's businesses from advising on mandatory pooling of capital allowances, the correct structure for their business or how they can appropriately pass on their business to the next generation'.

Find a partner

Partnering with a relevant software specialist is one clear way of continuing to make your practice indispensable to your current tax return clients – you can provide their training on the packages and can act as advisers and a kind of help desk for their queries. However, the very thing that makes many software packages so clever is that it is technology that 'learns' and 'adapts'– the learning algorithms begin to identify patterns in your spending and invoices and eventually is able to allocate payments etc. Therefore you should expect that as the years go by you will receive less queries as the system develops and becomes more accurate.

There are several examples of advisory practices which we can learn from. I recently caught up with Sally Duke, a VAT Senior Manager at Grant Thornton, at a talk she was giving for 'Women in Tax' on getting prepared for MTD. I asked her view on how MTD might impact the tax practice. She explained: 'For firms with an advisory focused indirect tax practice there won't be much change – in the main they don't prepare VAT returns but they can review the VAT return before it is submitted. Our focus is on the clients' accounting systems and VAT control processes – i.e. ensuring the right information goes to HMRC – this will be just as important when tax goes digital'.

Focus on advisory

Although there are some indirect focused compliance teams in the Big 4 (for example dealing with the NHS) and teams in small accountancy firms which deal with the VAT returns along with the accounts – most indirect tax teams are more advisory focused. Staff train on advisory work rather on tax return preparation. Where they give advice on compliance it tends to be around process and systems – such as VAT registrations, advice on the VAT ratings for new products, or whether something is VATable – all of which is likely to still be required.

I think that the model for direct tax practices will shift towards more experienced staff who can add value on advisory focused areas such as IHT planning, R&D, transfer pricing, capital allowances – all the areas which need an expert to do analysis and come up with a calculation rather than it being something that feeds through from a bank feed or a business's accounts.

We have already seen the Big 4 move towards a model where compliance and advisory work is treated separately – I remember when the first compliance centres opened – those of us who had previously trained in tax and cut our teeth on compliance could not understand how a tax adviser could train without a background in compliance. Now several generations of tax trainees in, we see qualified professionals coming out of the Big 4 who have never prepared or submitted a tax return and yet work in mainstream corporate or personal tax. This model of the advisory focused practice also fits the mind set of the millennial generation who want responsibility earlier, to get more feedback and to work in a more mobile and flexible way – all of which suits an advisory focus.

Millennials don't get 'presenteeism' because they can access their work from anywhere at anytime. Their natural aptitude towards technology also means they are the ideal people to train to identify the algorithms used by HMRC and to help clients use technology to improve their processes.

Larger is safer?

I suspect the firms that will suffer the most from MTD are the local independent accountancy firms whose model is to prepare tax returns for local businesses and their owners. For them the compliance is the 'bread and butter' of their work and

advisory work is the extra which fluctuates year on year and which adds to the profit. It will be difficult for accountancy firm owners to sell on their practices when they retire if they can no longer count on recurring compliance fees. I think all tax practices will need to look at their previous years' figures and work out how much compliance actually equates to. Having talked to clients I think most accountancy firms – and that includes the Top 20 – will find that up to 50% of their tax fees are compliance related. On this basis all tax practices will need to plan now for 2020 to work out how they can substitute the fees that they receive from compliance.

One option is to consider similar service lines – we are, for example, beginning to see some accountancy firms take on probate work – traditionally the realm of the legal practice. Probate work fits neatly with an established trust practice and trust administration. Indeed in the last recession I saw several personal tax compliance specialists who couldn't find a tax role retrain to advise on wills and probate. I suspect that the new 'transfer pricing' for the next decade will be customs work following on from Brexit and I'm already getting enquiries from clients looking to set up customs divisions. I also wonder whether we will see a further increase in payroll teams as HMRC increasingly seek to payroll benefits.

In many ways the 'demise of the tax return' fits in with the way that progressive accountancy firms are changing, staff want more flexible working around care for children or elderly parents and a move away from the culture of the 'busy season' to work which could be managed more smoothly throughout the year would benefit a more flexible working arrangement. It fits with the practices that rotate their trainees around different departments in a system similar to legal articles where trainees sit in several 'seats' before deciding where they want to specialise. It fits with smart technology which allows you to check your banking and your digital tax account on your phone.

Recalibrating

Unfortunately, I suspect that we will see something of a 'recession' in the tax market around the introduction of MTD, as tax practices recalibrate their offering to clients it is likely that they will have to streamline teams which currently focus on compliance. I suspect we will see a drop in graduate recruitment and a focus on retraining staff to deal with more advisory focused areas. One sector that I think may do well out of MTD is tax investigations specialists. In recent years the tax investigations teams in the Big 4 and Top 20 have shrunk but I suspect these departments may grow again

as advisers are needed to deal with enquiries coming out of HMRC having access to bank feeds. HMRC hope MTD will help them identify people who currently underrepresent their wealth or who are currently not participating in the tax system and not completing a return. I suspect that investigations teams will be kept very busy helping clients who are looking to negotiate with HMRC on back taxes and getting themselves in to the new system with as few penalties as possible. I also suspect that investigation teams will become sites for new technology which will help analyse HMRC algorithms to work out where and how HMRC get some payment demands wrong. I also envisage HMRC becoming a ‘hunting ground’ for software specialists and process specialists who will be recruited from there to join the accountancy firms.