

# Why tax departments need to embrace the digital era





# Contents

<b>3</b>	<b>Introduction: A broken tax process</b>
<b>4</b>	<b>Losing time: The two month void</b>
<b>6</b>	<b>Financial confidence is lacking</b>
<b>9</b>	<b>MTD—holding a mirror to your business</b>
<b>10</b>	<b>The need for tax transformation</b>
<b>11</b>	<b>Survey methodology</b>
<b>11</b>	<b>About Arkk</b>

---

# Introduction

## A broken tax process

The last few years have demonstrated just how important it is to get tax right, not just from a compliance perspective, and any subsequent fines, but also from a corporate reputation standpoint. Various companies, from SMEs to multinationals, that are repeatedly fined by HMRC due to inaccurate figures are likely to be flagged as 'high risk' and come under scrutiny from regulatory and compliance bodies due to their attitude to tax.

This is a situation that every company should try to avoid for multiple reasons. Firstly, it puts an additional strain on companies' resources, particularly the tax department, which must now attempt to rectify the problem, and secondly, the potential reputational damage caused can have a negative impact on the company's performance.

In many instances it's clear getting tax wrong is not down to malicious intent or trying to exploit every loophole. Often, the culprit is manual time-consuming processes that haven't been updated in several years that stop businesses getting their tax submissions right.



Suspecting this is the case, Arkk commissioned Attest to survey individuals whose role has some level of involvement with their company's taxes. We wanted to quantify the scale of the problem faced by businesses.

The research identifies the time it takes to compile and submit VAT returns, how accurate the returns are and preparedness for the next stages of Making Tax Digital (MTD), with some alarming results.

In addition, we asked more than 400 respondents if there was one thing they could change about their current processes, what would it be? The most common response was that they wouldn't change anything, implying that their current processes are working perfectly - which the results reveal not to be true. However, change is difficult.

Finance and tax departments, due to their regulated nature, are likely to be highly risk-averse. Opting to preserve the 'status quo' and maintain compliance is a safer bet than adopting new technologies that might 'break the system'. However, once we began to investigate further, other answers included; the accuracy of returns, making it simpler and improving technology with digitalisation and automation. All of which suggests the underlying need for change and improvement in processes.

As the results show, the current process is broken and does need to be fixed.



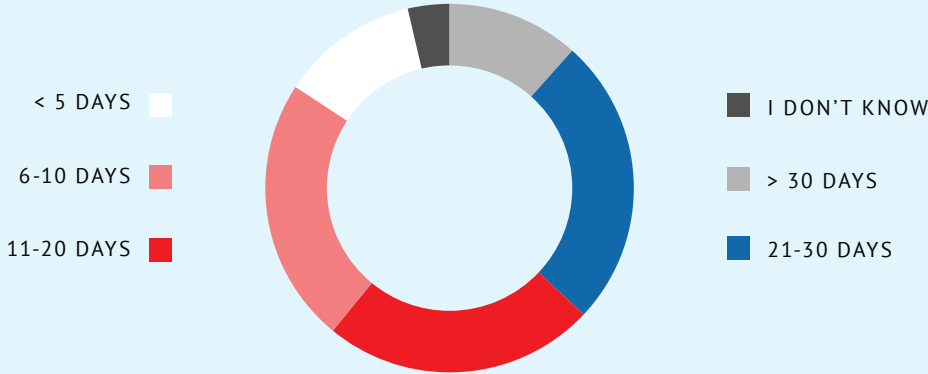
# Losing time

## The two month void

One of the main areas we were keen to investigate was the time it took to compile and submit VAT returns. Is the belief that many businesses rely on extremely manual, time-consuming processes true? And, how much does this really affect the transparency of the tax department and its ability to provide its tax position?

Research amongst the 416 companies questioned found that 56% of people, whose main function is tax, spend over 10 days preparing, checking and submitting their VAT return. With four of these to complete every year, that is almost two months of the working year taken up simply filing VAT returns.

**56% spend over 10 days preparing, checking and submitting their VAT.**



## Other Findings

# 25.4%

of all respondents said it takes **21 to 30 days to prepare, check and send a VAT report**. With an average month containing 21 working days, these businesses are spending roughly **4 months a year** working on their VAT returns.

# 23.9%

of all respondents said it takes **11 to 20 days**.

**Worryingly, 48 companies surveyed (11.6%) said it takes more than 30 days to compile and submit.**

## Does size matter?

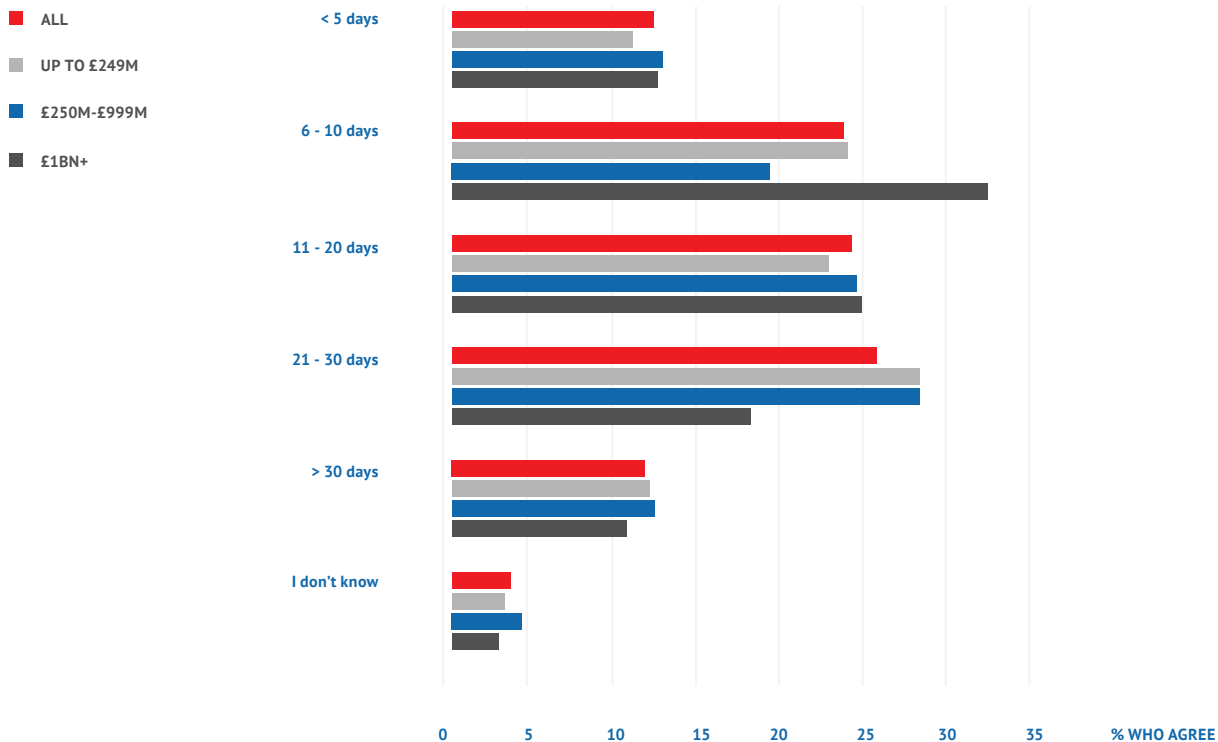
It's apparent there are huge inefficiencies within many businesses. And it doesn't matter what size they are. It would be easy to assume the bigger the business, the more complex the submission and therefore the longer it will take. While complexity is likely to increase with size, it isn't directly proportional to time taken.

40% of businesses with revenue between £250m and £999m state that it takes 21 days or more to compile and submit their VAT return each quarter. However, this number drops to 28.3% for businesses with revenue equal to or over £1bn.

MTD is an opportunity to take a critical view of a company's processes and investigate where savings efficiencies can be made, particularly regarding VAT submission time.

If the tax department wasn't spending, in many cases, one month per quarter managing VAT it could use this time more effectively to provide strategic information and commercial guidance to the business.

## The speed of companies' VAT submissions



## Financial confidence is lacking

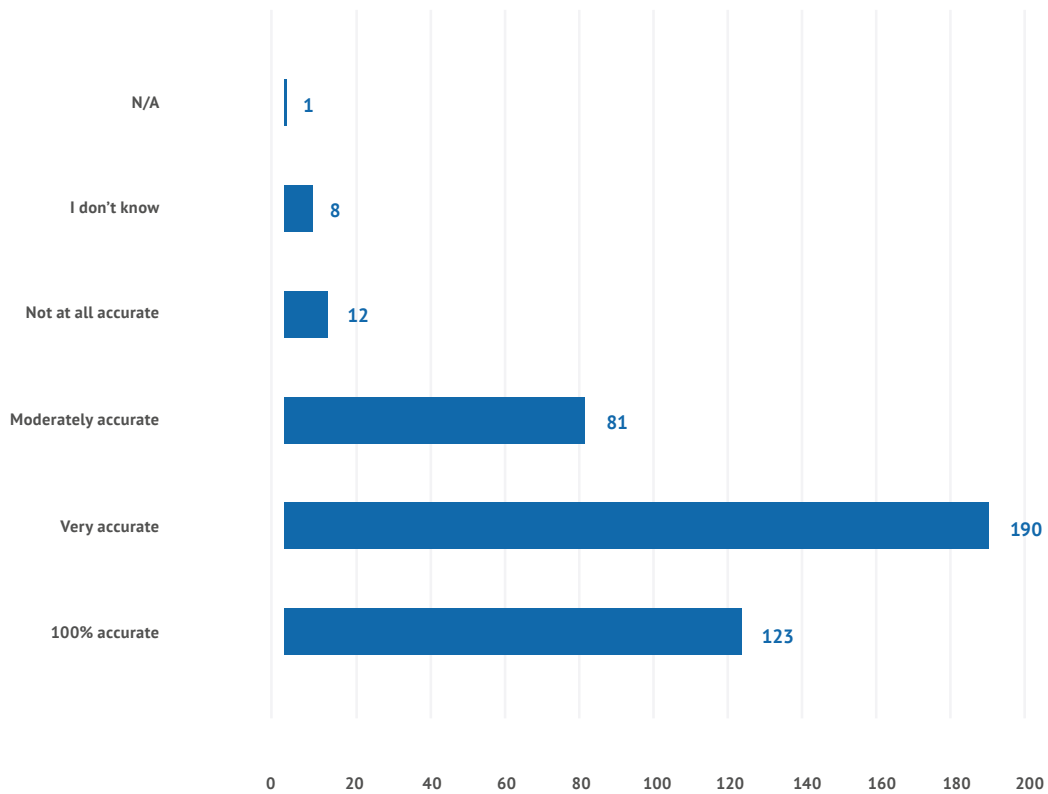
Despite the fact that knowing your company's tax position at any given time is crucial to a business's operational efficiency, some tax departments are unable to guarantee accuracy in their figures.

There are several reasons why a company would knowingly submit inaccurate figures, the majority aren't for malicious intent. Often inadequate processes, complex legislative compliance and time and resource constraints are the cause of inaccurate data. Nonetheless, transparency and accuracy are high on HMRC's transformative agenda.

According to our research, a third of mid-sized UK businesses believe their taxes are not truly accurate. And across the board, 22% of businesses of all sizes know they are getting tax wrong to some degree. If they could change one thing, it would be to either improve their accuracy, or have a better view on their current state of accuracy.



## Accuracy of VAT submissions



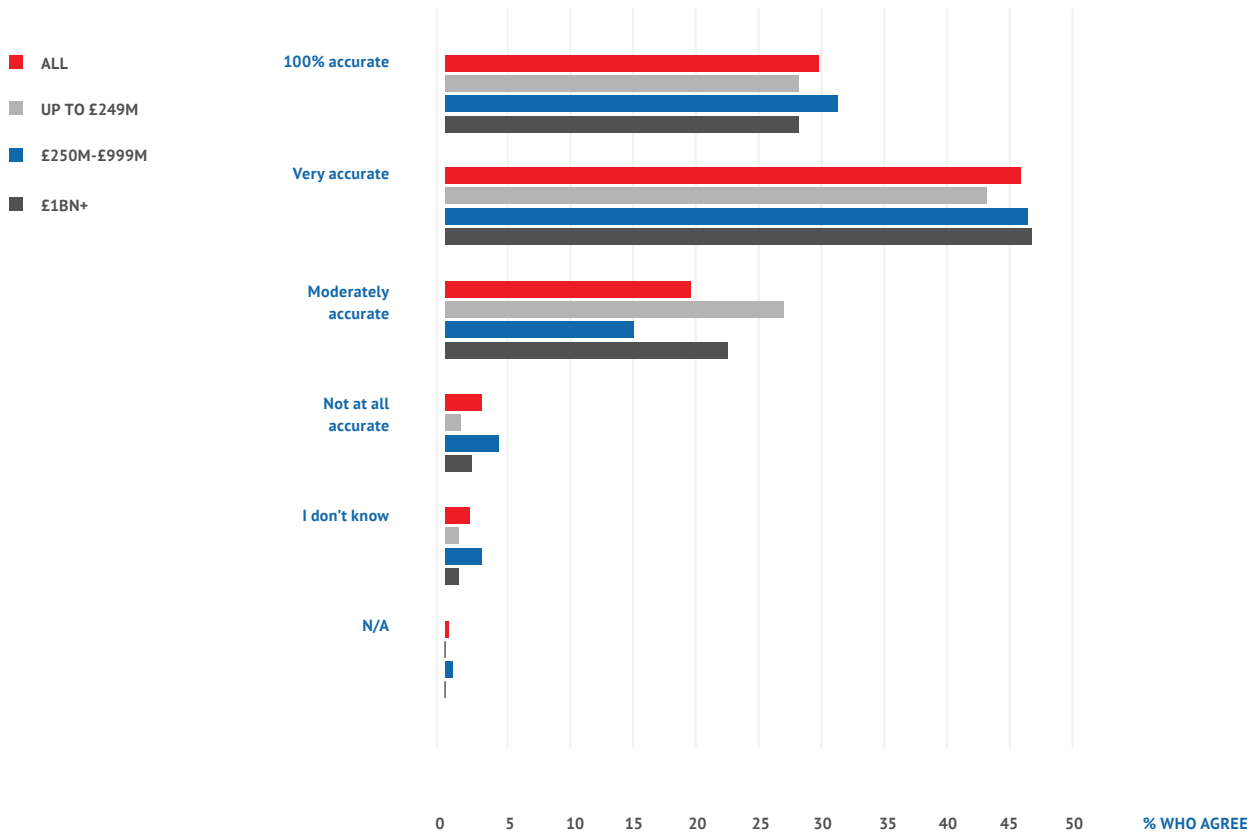
**Over half of tax professionals (59%)  
said reclaiming any overpaid VAT and  
avoiding penalties was 'very important'.**

**Tax accuracy was  
'very important'  
to 75% of  
individuals  
whose main  
function is tax.**

**Overall, 1 in 4  
businesses don't  
believe their taxes  
are 'very accurate'.**

**20% of  
businesses with  
over \$1bn in  
annual turnover  
admitted a lack  
of confidence in  
their tax figures.**

## The accuracy of companies' VAT submissions



## The challenge of stakeholder buy-in

It's clear that there's a problem with tax. If the tax department lacks confidence in its figures, so will the rest of the business.

While knowing that the figures aren't 100% accurate, getting buy-in from the relevant stakeholders to make the necessary changes is also a challenge.

Arkk customer Marek Fletcher, Head of Tax, at Nomad Foods said: "The main challenge I have faced in all the businesses that I have worked in is stakeholder management. Changing the perception of the tax department internally is key. The value that appropriately managed tax can bring to the business, or the value that can be destroyed if tax is inappropriately managed, can be huge. Once senior management understand this, they will support the adoption of the latest technological developments to facilitate the smooth running of the Tax Department."

Now is the time to take a critical look at how the tax function operates and whether transforming it will help prepare the business for the future. Businesses need to get ahead of any issues to protect the reputation of the company and ensure they have confidence that they are paying the correct tax. Delivering transparency to the business is crucial.







## MTD – holding a mirror to your business

Most companies we speak with want to improve tax accuracy, not only because it's the right thing to do but also to ensure their tax compliance. But many are failing to take advantage of the opportunity that regulatory changes give them to assess their processes and available technology to not only comply but also streamline efficiencies.

Our research has shown that only half of all businesses are aware of the requirements of MTD post 2019, such as the need for digital linking which will come into effect on 1st April 2020. Despite the fact that many are unaware of these requirements, 74% believe that accuracy and timeliness of tax returns is 'very important'.

**Nearly half (45%) of tax professionals are either somewhat aware or completely unaware of MTD requirements beyond 2019.**

**Only 1 in 2 people who are aware of MTD beyond 2019 are 'very prepared'.**

**Over half (56%) stated that they either weren't sure or didn't think preparing for MTD beyond 2019 was a priority.**

## Preparing for the future

As the Indirect Tax Manager for one of our clients said at a recent roundtable, “We need something like MTD to push tax up the agenda in the business. But we should use it as an opportunity to unify everything, not just comply.”

More transparency into the figures delivers financial confidence to the whole business. It also means businesses have everything they need at their fingertips when other regulations are introduced. However, leaving changes to comply with MTD post 2019 to the last minute will simply ensure businesses continue the endless cycle of:

1. **Learn about a new mandate which impacts the organisation**
2. **Purchase software and/or advisory services to comply**
3. **Copy and paste data into the new system**
4. **Comply with current mandate only**
5. **Repeat**

There is a real opportunity for tax departments to fully digitalise the tax process. With automation and machine learning available in tax technology, businesses can not only prepare for the regulations they know about now, but also anything that comes up in the future.

---

# The need for tax transformation

There has never been a greater need for tax transformation. Tax authorities are putting increasing pressure on organisations to provide greater transparency and accountability. Implementing tax reforms now is a proactive approach that will help to sustain a company’s financial success.

Times have changed. Due to technological developments across e-commerce and logistics, transaction volumes are on the rise - resulting in additional demand being placed on tax departments. Dependence on Excel, the Indirect Tax Managers’ go-to software, is coming under increased scrutiny. Data entry errors, caused by repetitive manual data input, are likely to be a contributing factor to our survey statistic that 1 in 4 businesses don’t believe their taxes are very accurate – a fact that tax administrations are becoming increasingly astute to and likely to penalise. Tax, just like other departments, must undergo a fundamental shift and embrace the new digital age.

Tax transformation, fuelled by digital innovation, will enable tax departments



to become more efficient and provide more value to companies. Digital tax solutions will allow greater transparency of a company's current tax position and automation will significantly reduce the time being spent by tax departments on laborious tasks and improve accuracy. Additionally, the improved visibility of an organisation's tax position will provide valuable insights to not only make better business decisions but also give reassurance to tax departments.

The commercial success of a company is underpinned by an effective tax management system. An accurate, streamlined, transparent and reactive tax management system will ensure compliance with any future regulatory changes and support the financial health of a business.



## Survey methodology

The research was carried out in July 2019 by Attest and included 416 responses. All respondents have some responsibility for tax within businesses generating a turnover of £100million or more.



## About Arkk

Arkk Solutions removes the risk and complexity of regulatory and financial reporting, and tax compliance for global businesses through a comprehensive suite of solutions including iXBRL, AIFMD and COREP. Our award-winning SaaS platform, for:sight, automates the processes behind tax compliance, giving organisations reassurance in the accuracy of their tax submissions - eliminating the chance for surprises or possible reputational damage.

Our for:sight platform allows companies to move away from error-prone disparate documents to seamlessly automate the end-to-end process, from data cleansing and verification to submission. Ultimately, for:sight enables CFOs and their teams to not only save time but go beyond compliance, transforming their financial reporting to provide greater transparency, control and insight.

Over 850 companies, with users across the globe, trust us to simplify and modernise their reporting processes. Arkk's 10 years of expertise in regulatory and statutory reporting have allowed us to develop a robust, efficient and intuitive solution to help resolve finance professionals' tax turmoil.





**Discover how Arkk Solutions  
can help to transform your  
tax function:**

**[arkksolutions.com](https://arkksolutions.com)**

