



The transformation of tax: 2020 and beyond



arkksolutions

In association with

AccountancyAge

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Introduction

Technological innovation has facilitated many digital transformations across the global accountancy ecosystem over the course of the last decade – yet until recently, the recording, reporting and auditing of business taxation within the UK had failed to chart any digital progress. That all changed in April 2019, when HMRC launched its new mandate Making Tax Digital (MTD).

Looking further ahead, HMRC plans to incorporate income tax and corporation tax under Making Tax Digital.

While the recording and reporting changes that go hand-in-hand with MTD may pose drastic changes to the tax function of businesses across all industries, it’s worth noting there are a variety of approaches corporates can and are already pursuing in order to meet their new obligations. Our *Transformation of tax* survey was designed to explore these approaches – as well as the areas in which practitioners still have some catching up to do.

We received responses from over 100 accounting and treasury professionals responsible for managing their respective organisations’ tax obligations, and discovered that Making Tax Digital has

been the single greatest kick-starter for digital transformation in 2019 – particularly among large organisations.

Yet despite this positive movement, there have been plenty of teething issues in preparing for MTD. A whopping 85% of practitioners said they’ve found the process of preparing for MTD difficult, and nearly half of corporates said they’ve been struggling with their first MTD submission – with effective software repeatedly cited as the key barrier in prepping for MTD.

This is particularly concerning given the fact that most UK businesses are set to transition over to ‘phase 2’ MTD requirements in 2020, which brings an end to the ‘soft landing’ regarding digital links, and almost 42% of professionals told us they still aren’t ready for this next phase in digital taxation.

The results of our investigation speak for themselves: the MTD headache isn’t going to go away any time soon – and practitioners have got to act now in order to futureproof their business against further regulatory changes – not to mention the risks that go hand-in-hand with non-compliance and reputational damage.

Chapter 1: VAT and the MTD headache

Preparing for MTD

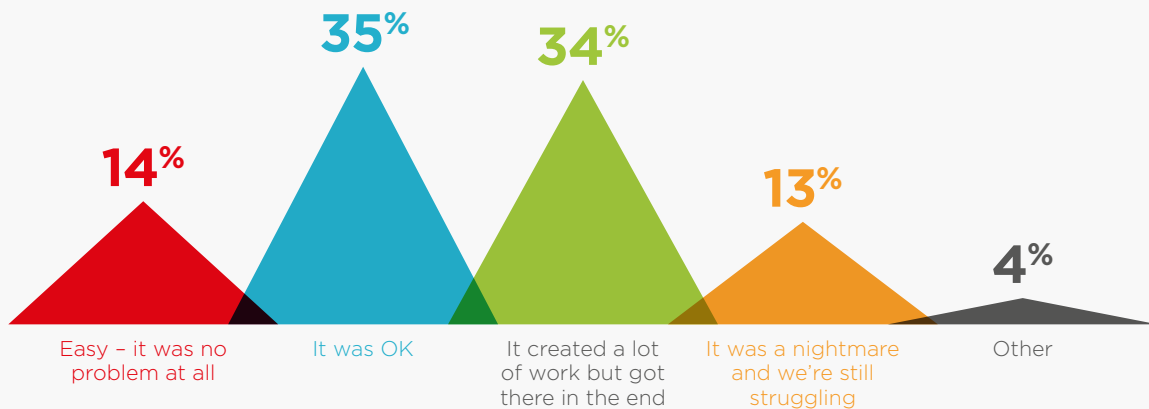
Because there's no one-size-fits-all method, our *Transformation of tax* survey was designed to investigate how organisations are currently coping (or how they're anticipating coping) with the change - and we found a vast majority of accountants and financial decision makers have struggled to prepare.

These numbers were consistent across companies of every shape and size, indicating that **MTD is a challenge at every end of the market**. Size and sector are not a factor.

85% of professionals said they've found the process of preparing for MTD difficult. Interestingly, many of those surveyed - approaching 50% - admitted they're either still struggling to get ready for the new MTD requirements or struggled with their first MTD submission.

Confidence levels are definitely a barrier where VAT and MTD are concerned

HOW HAVE YOU FOUND THE PROCESS OF PREPARING FOR MTD?



VAT and MTD

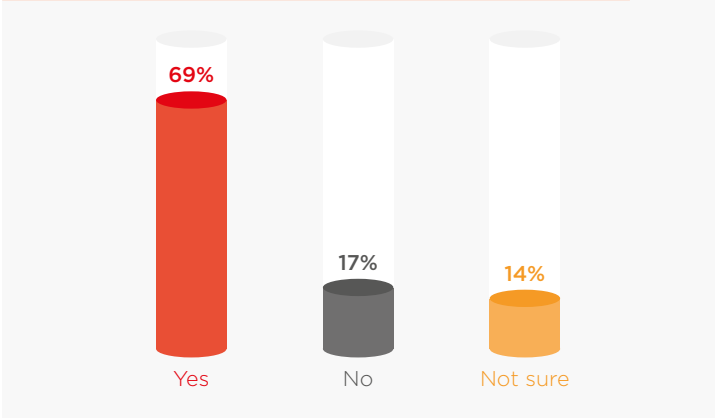
Confidence levels are definitely a barrier where VAT and MTD are concerned.

There's far more complexity to come, and just under a third of this year's survey respondents have already said they lack confidence.

69% of practitioners told us they were confident in their first MTD VAT return - and while this may still seem like a relatively high proportion, it's worth considering this initial phase of implementation is actually fairly simple.

That number is likely to increase as a larger proportion of businesses migrate over to the new MTD system, and so the bottom line is this: **the MTD headache isn't going away**.

ARE YOU CONFIDENT ABOUT YOUR FIRST MTD FOR VAT RETURN?



“It’s unsurprising software is one of the top challenges for firms of all sizes preparing for MTD. With the myriad options available and the need to comply with both MTD phase 1 and 2, the choice can seem overwhelming,” says Russell Gammon, Chief Product Officer at Arkk Solutions.

“The main considerations for tax tech implementation should be compliance, cost, security and ease of implementation with a company’s current systems”

Software compatibility, lack of process and cost were all cited as top challenges among those respondents representing firms with annual revenues of £250m or more in our 2019 investigation.

Software is a key challenge

When asked about the greatest respective challenges their firms have faced in preparing for MTD, practitioners cited a number of hurdles. Yet the top challenge is definitely software. But interestingly, **the challenge of finding and implementing adequate software is not unique to smaller firms with limited resource.**

Larger organisations with greater tax complexities have suffered more than SMEs overall in relation to MTD preparation and investment, but we’ll discuss this at greater length in Chapter 2.

WHAT ARE THE BIGGEST CHALLENGES YOU’VE FACED IN PREPARING FOR MTD?



Chapter 2: Complexity drives investment

When it comes to MTD, size matters

It's clear both large multinationals and SMEs are struggling with MTD for VAT. Yet our research found the size of an organisation makes a difference. While over 67% of large firms (corporates with annual revenues of £250m or above) said they were confident in their initial VAT returns under the MTD regime, **a third of large firms say they lack confidence.**

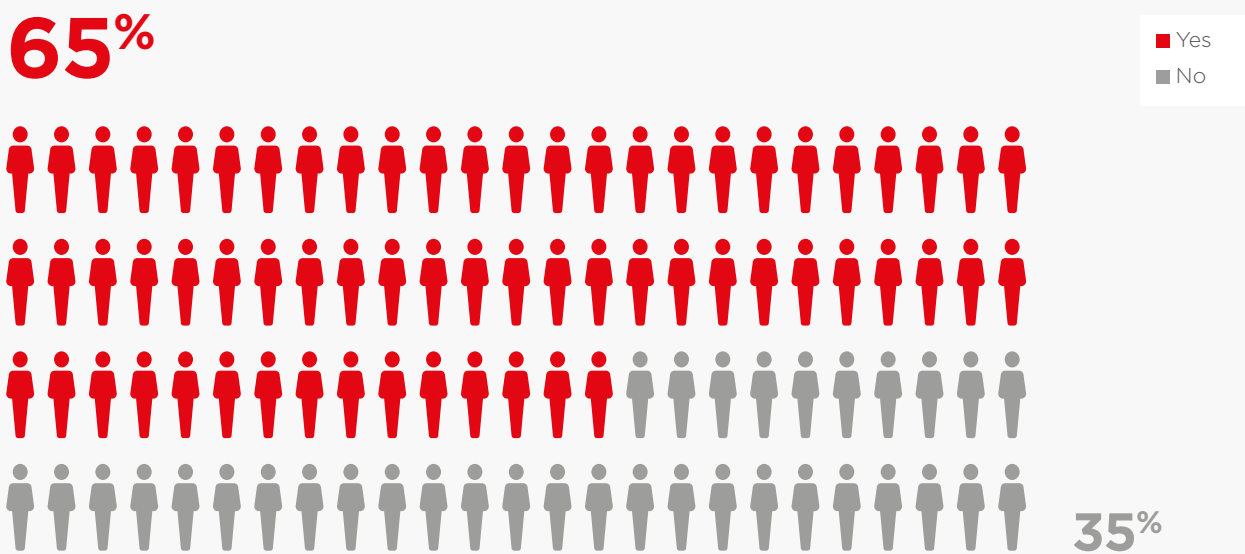
This lack of confidence will no doubt relate back to the complex nature of their accounting function - from multiple ERP solutions and a large number of acquisitions, to decentralised treasury processes and more complicated revenue streams.

It's this complicated set of circumstances that has pushed firms to invest more heavily in tax technology and MTD solutions.

Almost 65% of organisations told us they've invested in tax technology within the last three years - while just 35% of practitioners said their firms still hadn't invested.

It's this complicated set of circumstances that has pushed firms to invest more heavily in tax technology

HAVE YOU INVESTED IN TAX TECHNOLOGY IN THE PAST THREE YEARS?



HOW WELL DO YOU THINK TAX SYSTEMS ARE INVESTED IN BY YOUR COMPANY?



What's holding back investment?

Our investigation revealed over a third of organisations haven't invested in tax technology in the past three years – and when asked what was holding back investment, 'selecting the right software solution due to company complexity' was the most commonly cited reason.

Similarly, and despite the fact most large firms have clearly started investing in tax technology and MTD solutions, **larger firms are more likely to think their company is under-investing** in those new solutions.

Among all those practitioners surveyed, only 16% indicated their firms were very well invested in tax technology.

Once more, this boils down to the complexity of the processes and data streams larger corporates are dealing with.

After all, the more data an organisation utilises, the more difficult it is to complete a return and carry out reconciliation. That's why so many companies are pushing through these digital transformations in order to remove manual processes and improve investment levels in streamlined solutions – and not just where MTD is concerned.

54%

of practitioners say MTD has convinced them to reassess their company's tax processes at a broader level.

Chapter 3: Accuracy revealed as major concern

Accuracy is a problem

When it comes to tax recording and reporting, absolutely nothing is more important than getting tax right – and unfortunately, our investigation revealed **there's still a lot of room for improvement in terms of tax return accuracy.**

Just over 50% of survey respondents said their tax returns are as accurate as possible. That's pretty concerning.

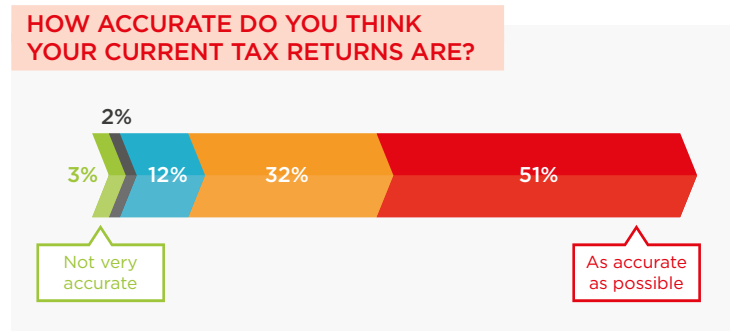
After all, if a company isn't scoring perfectly on accuracy, that means something in there isn't right – potentially leading to far-reaching (and potentially damaging) ramifications.

Our research found **the main barrier to accuracy is data.**

Both large corporates and SMEs said that data volumes, client information and a lack of adequate software all posed fundamental hurdles. Complexity, human error and poorly drafted invoices were also cited as barriers to accuracy.

Timing is crucial

It goes without saying MTD-compatible software and up-to-date tax solutions are a critical investment for those working to improve accuracy levels. Yet some of the most commonly cited areas where practitioners want to see their organisations



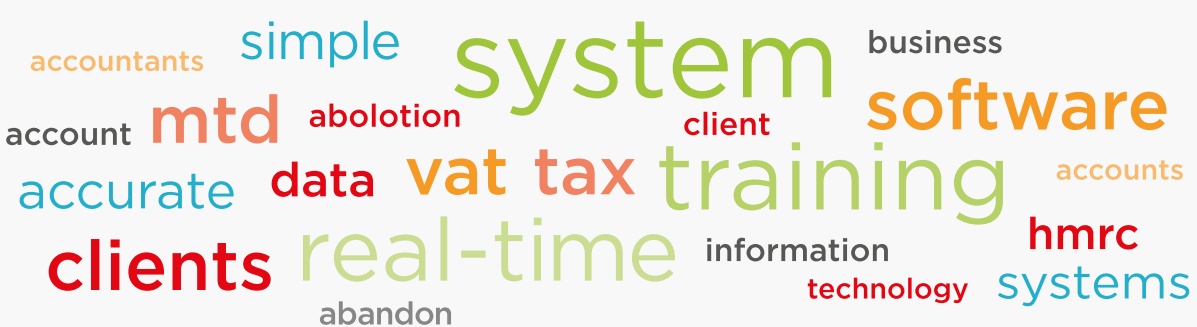
improve are also human error and training – and timing is crucial here.

Respondents said **there's a desire to see more training around MTD systems** – specifically collaborative and communicative training to unite accounting, tax and IT departments and ensure everyone is speaking the same language around VAT and tax technology.

It's important practitioners put in the time and get going now to ensure their organisations have incorporated adequate time for training on MTD and new VAT requirements. Yet it's worth noting this training doesn't necessarily need to be advanced.

Simply sharing and upskilling across all departments in each other's processes and ways of working can go a long way in order to empower individuals with a competency across a variety of areas.

WHAT WOULD HELP MAKE YOUR TAX RETURNS MORE ACCURATE?



Chapter 4: Technology

MTD is driving digital transformation

Digital transformation is a top priority for corporates across the globe, but it can often be difficult for decision makers to build a case for investment. Fortunately, MTD makes the case for itself.

Our research found **MTD has been the single greatest kick-starter for digital transformation in 2019 – particularly among large organisations.** While just over half (54%) of all practitioners told us MTD had pushed their companies to move onto new systems, this number skyrocketed to 98% of larger corporates.

Despite this monumental shift and the clear benefits of investment, there are still quite a few businesses that have yet to make a move.

When asked if their businesses were investing in tax technology solutions, just over a third (35%) of practitioners said ‘yes’. While it’s great to see companies committing to investment in tax technology, there is still plenty of room for improvement.

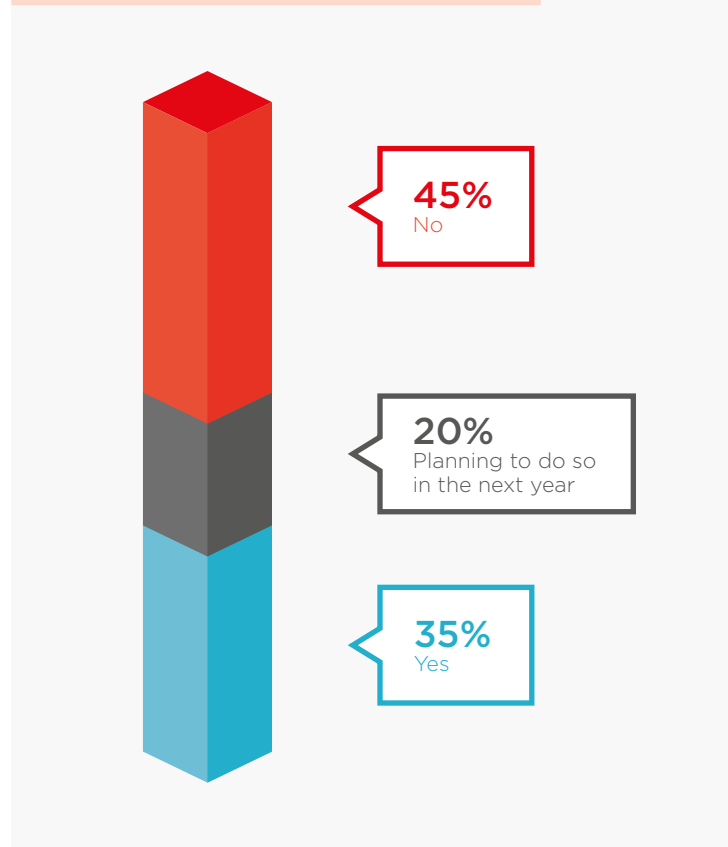
One in five respondents (20%) are planning to invest in tax technology next year, likely fuelled by the phase 2 MTD digital link mandate. However, this still leaves 45% of practitioners currently not looking to invest at all.

With time quickly running out for these organisations to meet the latest MTD regulations, it will be interesting to see how these companies future-proof their business activity against further tax changes.

Investment in tax tech

Our investigation sought to explore how organisations are investing in tax tech – and we found that **a majority of firms have chosen to invest in a digital tax solution.**

IS YOUR BUSINESS INVESTING IN TAX TECHNOLOGY SOLUTIONS?



Despite this monumental shift and the clear benefits of investment, there are still quite a few businesses that have yet to make a move

API solutions are unsurprisingly another popular choice, with 35.6% having already invested in MTD APIs and a further 18.4% indicating they planned to look into this area. This was followed by data analytics solutions – while **almost one in five practitioners said they were planning to invest in a data analytics solution for tax purposes.**

WHAT TAX TECHNOLOGY HAVE YOU INVESTED IN?

	Have invested	Plan to	No plans
Digital tax solution	51.7%	13.8%	34.5%
MTD API solution	35.6%	18.4%	46.0%
Data analytics solution	13.8%	18.4%	67.8%
Transfer pricing software	5.7%	11.5%	82.8%
AI/machine learning	11.5%	11.5%	77.0%
RPA Software	4.7%	15.1%	80.2%

Cloud is key

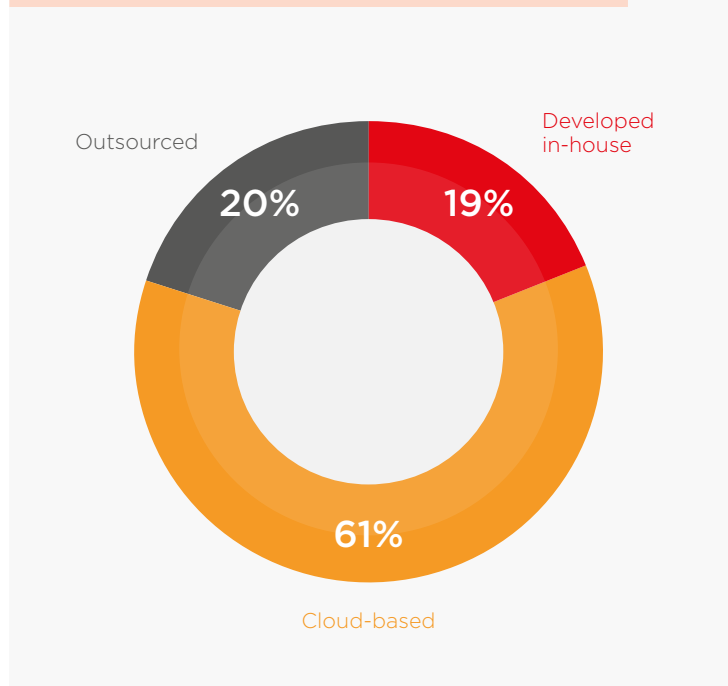
Regardless of the types of tax technology corporates are choosing to pursue, **cloud-based solutions are the overwhelming choice for access and delivery.**

When asked whether they'd prefer to outsource, develop in-house solutions or go for a cloud-based tax solution, almost two-thirds indicated they'd choose a cloud-based solution.

This push for the cloud likely stems from the lower upfront cost and investment required in order to implement a cloud-based solution, as well as such a platform's ability to enable teams to engage in enterprise-wide collaboration.

Roughly one in five surveyed told us they preferred either an outsourced solution or in-house tech.

IF YOU HAD TO PICK, WHICH WOULD BE YOUR PREFERRED TAX TECHNOLOGY SOLUTION?



Security is a top concern

When investing in new tech solutions, security is inherently bound to be a top concern – particularly in the post-GDPR era. That’s why we were unsurprised that **security is still the top concern practitioners have about implementing new tax solutions.**

It’s also likely part of the reason so many organisations are considering cloud-based tax solutions rather than outsourcing or developing in-house.

Simply put: the default levels of security on offer from cloud-based providers are typically much higher, and cloud-based providers tend to have the resource and functionality to go further than in-house security protocols.

In addition to security, respondents also told us that the availability, the cost of implementation and reliability of solutions were concerns regarding tax technology solutions and their usage.

Collaboration between IT and C-level

In terms of the implementation and usage of any new tax technology solution, it’s clear the role of IT as it relates to digital transformation is growing.

One in five of respondents said they would go straight to IT for help implementing a new tax system rather than their CFO.

Yet 43% of practitioners indicated they would lean on a combination of both IT and their CFO when it came to support for a new tech system.

This is supported by a statement from Arkk Solutions’ CEO and Founder, Richard Metcalfe.

“Technology is a transformative tool for all functions within a business. It’s adoption within almost every facet of an organisation means that reliance and collaboration with IT will continue to increase.

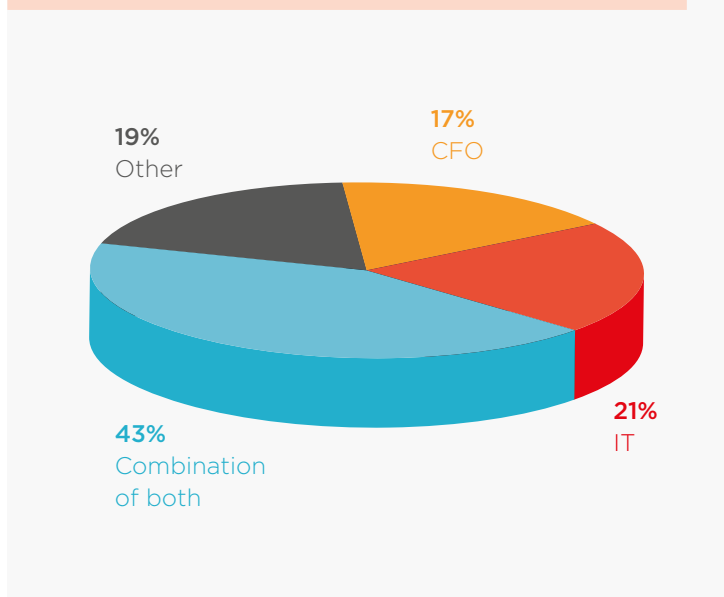
DO YOU HAVE ANY CONCERNS REGARDING TECHNOLOGY AND ITS USAGE?



The only way for the successful implementation and integration of technology is with IT’s support.”

The message here is clear: in order to achieve effective digital transformation, collaboration between IT and the tax function (along with total buy-in from all stakeholders) is absolutely essential.

WHO IN YOUR ORGANISATION WOULD YOU WORK WITH TO IMPLEMENT A NEW TAX SYSTEM?



Chapter 5/Conclusion: MTD 2020

MTD 2020 is on the horizon

Despite the fact that most UK businesses are expected to transition over to 'phase 2' MTD requirements in 2020, it's clear the vast majority of organisations aren't prepared for the imminent digital linking mandate.

Our research found **42% of respondents still aren't ready for 2020 MTD requirements**. A further 38% said their firms had only just started trying to prepare.

If nothing else, this should give some comfort to those firms that have yet to finish getting ready for the next phase of MTD in knowing they're not alone.

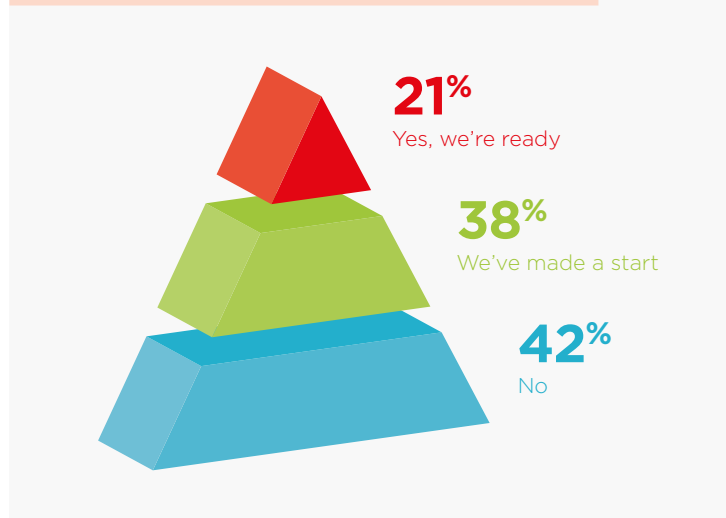
It's also worth highlighting the fact that HMRC is infamous for pushing back implementation deadlines – and given the delay we've already seen in 2019 for larger firms with more complex reporting, it's reasonable to suspect there may be further delays to 2020 implementation guidelines.

Futureproofing with tax tech

Despite any potential delays we may see in terms of MTD 2020, digital transformation in tax isn't just about scraping by to meet single issue regulatory requirements. It's about looking to the future – and MTD poses corporates with the perfect excuse to make that digital leap.

It makes sense for businesses to prepare now rather than regret a lack of investment in the future. Implementing a tax technology solution ensures compliance not just with MTD, but with a wide range of other

HAVE YOU ALREADY PREPARED FOR THE 2020 MTD REQUIREMENTS?



regulatory requirements that impact on operations both now and in the months and years to come.

Digital tax solutions also enable corporates to achieve faster VAT return completion times, as well as improved rates of accuracy that marginalise the risk of human error and ultimately have the power to save organisations time and money.

By investing in tax technology solutions, corporates are effectively future-proofing their companies – and with continued market uncertainty and socio-political unrest taking place across the UK, EU and beyond, companies should definitely be looking to take any steps they can now in order to solidify and consolidate their compliance positions in the future.

Only 20%

of practitioners say their organisations are fully prepared for MTD 2020

About this survey

Accountancy Age conducted *The transformation of tax: 2020 and beyond* survey in 2019.

More than 100 responses were received as part of this year's survey, and the job functions of participants ranges from accountants (53%) and Financial Controllers (13%) to Financial Directors (11%), Treasurers (4%) and more.

Almost 42% of respondents represent the accounting sector – although a variety of other sectors including manufacturing, professional services and consulting were also represented. The vast majority (65%) of survey respondents represented organisations with annual revenues of under £5m. Around 7% of practitioners surveyed told us their firms had annual revenues of £250m or more.

Accountancy Age would like to thank **Arkk Solutions** for its support in the development and sponsorship of *The transformation of tax: 2020 and beyond* survey.