

# COMPLEX CALCULATIONS:

The need to move on from spreadsheets

# INTRODUCTION

Spreadsheets are widely used for tax processes chiefly because basic low-value compliance tasks such as calculating indirect tax can be relatively straightforward. Versatile and flexible, the software offers everything rigid legacy accounting systems lack. Small wonder then that our dependency upon them has increased.

There's also been little incentive to invest in the transformation of the indirect tax process. VAT in particular has been perceived as a sunk cost and a routine obligation.

But this is now changing with tax becoming more 'business critical'.

The Making Tax Digital (MTD) initiative has seen scrutiny increase so that there is now no margin for error, while the recent economic ramifications of the COVID-19 crisis have increased the need to protect cashflow. Such drivers have seen the VAT process now move up the corporate agenda.

## VAT IS BUSINESS CRITICAL BECAUSE:

1. VAT RATES ARE SUBJECT TO CHANGE
2. COMPLIANCE REQUIREMENTS ARE BECOMING STRICTER
3. DIGITAL LINKING WILL PLACE EVEN GREATER SCRUTINY ON BUSINESSES
4. IT PLAYS A VITAL PART IN CASHFLOW AND BUSINESS FORECASTING

# COMPLIANCE CATALYST

**74%** THINK COMPLIANCE SCRUTINY WILL INCREASE IN 2021

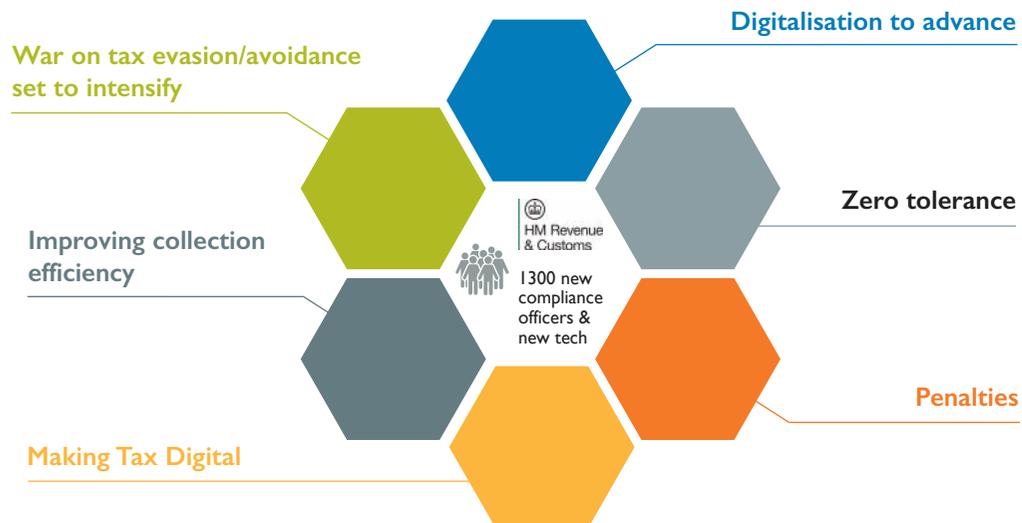
MTD will see the introduction of digital links from April 2021. This will see the digitalisation of all aspects of the process from source to report and it will no longer be acceptable to cut/copy and paste data. Instead, information must be digitally linked in order to be manipulated or moved.

This digitalisation is aimed at reducing the capacity for error but it will also provide greater transparency and allow HMRC to more closely scrutinise returns. Digital links effectively create a digital audit trail that makes it possible to look beyond the calculation and to determine how it was arrived at. In the event of an audit, HMRC will require access to this information.

The easier it is for the business to be able to provide this, the less convoluted the investigation will be.

Expectations are that HMRC will use digital links to come down harder on businesses in order to close the tax gap. It was promised 1300 additional officers and technology in Budget 2020, suggesting the enforcement of compliance, as well as clamping down on tax evasion and avoidance, will be a priority. During a recent ICAEW webinar, two thirds of those listening in thought scrutiny of non-compliance would increase in 2021.

However, it's not just VAT. Corporation tax and income tax will also be digitalised under MTD, meaning compliance demands and associated workloads on businesses will continue to increase.



# VAT WORKLOADS

Preparing a VAT submission can be a fairly straightforward process, however it is not quick to complete – with some steps taking disproportionately longer than others. Our Future of Tax survey, conducted by Accountancy Age magazine, found that two fifths of businesses spend more than 25 days per year collating, identifying and inputting VAT data, with the majority of these respondents relying on spreadsheets for this vital stage of the process.

Data preparation and cleansing, prior to calculation, is a critical component of the overall VAT process. Doing this accurately, every time, requires a considerable amount of time and resources.

Once data has been collated, the business may need to de-duplicate transactions, exclude those transactions that fall outside the Return period and ensure that the correct VAT rates have been applied.

All of these steps have to be completed manually using spreadsheets, however it doesn't need to be this way. Using dedicated compliance technology, these processes can be automated – thus improving efficiency, accuracy and saving a significant amount of time.



# ROLE OF TECHNOLOGY

Spreadsheets can support and act as an auxiliary resource to accountancy and tax software. Their flexibility makes them a useful tool for calculating complex calculations, for instance, which is why HMRC allows the user to dip out of the digital links process as “there may be points during preparation of your VAT Return when calculations will have to be made outside of any software you use”.

However, using spreadsheets for core business processes increases the prospect of manual errors and non-compliance. In HMRC report 576, the regulator said that “transferring records from a spreadsheet to the additional (bridging) software increased risk if this digital link was not set up correctly or the additional (bridging) software was still under development” and that this “could lead to digital links being inadvertently ‘broken’ or overwritten”. In such a scenario the business would not know it was non-compliant.

Nobody would choose to run an ERP system over a spreadsheet, nor should a digitalised tax process be run this way. Tax is now becoming a core business process, with higher levels of reliance, so continuing to rely upon spreadsheets sees the business subjected to unnecessary risk of non-compliance.

Spreadsheet-based processes need to be de-risked by augmenting them with dedicated compliance software.

**72%** OF BUSINESSES PLAN TO AUTOMATE THE TAX FUNCTION BY 2024

NOBODY WOULD CHOOSE TO RUN AN ERP SYSTEM OVER A SPREADSHEET, NOR SHOULD A DIGITALISED TAX PROCESS BE RUN THIS WAY.



# SPREADSHEETS AS SECONDARY

Certain complex calculations with bespoke criteria such as Partial Exemption Special Method (PESM) are typically executed in spreadsheets mainly because they've been the only tool that's been up to the job. However, businesses no longer need to rely on spreadsheets to perform this task.

PESM is a method used to help a business determine its input tax recovery entitlements using a variety of non standard criteria (such as floor space or headcount), as agreed in advance with HMRC. Even with the correct allocations and filters applied, the review process is still very time consuming.

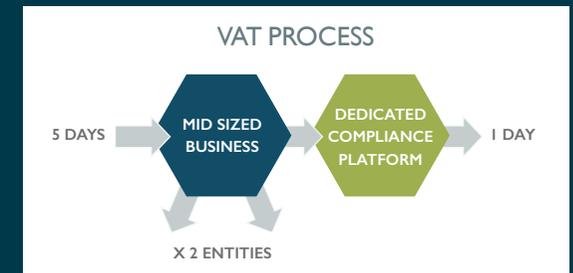
While HMRC expects that some businesses will still need to use spreadsheets to execute such complex calculations, it also states that it is preferable to do this within dedicated compliance software, as "using (MTD) software for all your calculations will reduce the risk of errors in your returns".

DURING A RECENT MARKET SURVEY WE FOUND THAT 78% OF BUSINESSES WERE CONCERNED ABOUT THE MANAGEMENT OF ADJUSTMENTS & AMENDMENTS, UP 13% FROM THE PREVIOUS YEAR.



## USE CASE: REDUCING COMPLEXITY

One mid-sized business with 18 entities and two group consolidations per entity was devoting five days per group to the review and consolidation of its VAT data. Using a dedicated compliance platform it was possible for the mid-sized business to reduce this VAT review process to just one day.



# HOW A COMPLIANCE ENGINE CAN HELP

A compliance engine has inbuilt mechanisms to automate tax processes to meet HMRC's regulatory requirements. It can augment and de-risk existing spreadsheet-based processes while providing a digital end-to-end process that is auditable.



Our AlphaVAT compliance engine adds additional resilience to your compliance process, through:

- **Process error correction:** Using AlphaVAT to automate your VAT process will highlight any underlying errors in your tax process, which can then be corrected and maintained in the platform, prior to digital linking.

- **Digital Links readiness:** Digital links can be shown clearly using our software. It allows users to drill back through calculations in order to see how the return is actually made up, thus fully meeting HMRC requirements.
- **Improved collaboration:** Role based access provides a frictionless environment for multiple users across disparate locations to work seamlessly on creating your VAT submissions.

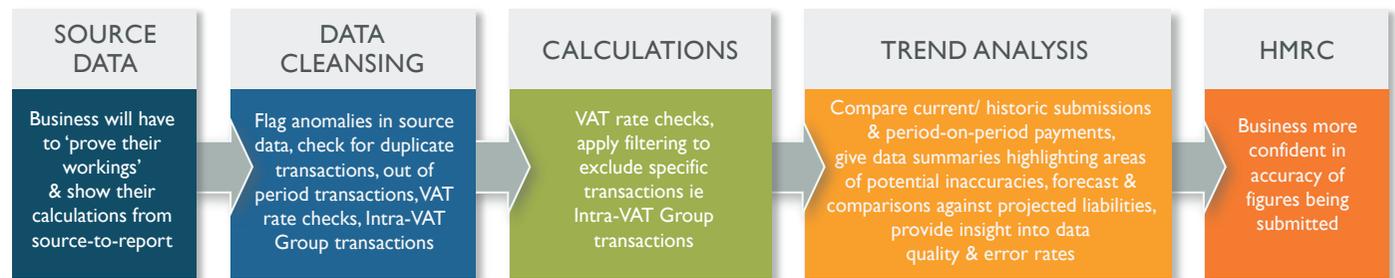
In addition, dedicated compliance software also boosts the efficiency of the organisation with a raft of other features. For instance it can:

- **Apply data cleansing** to ensure source data is validated and flag anomalies by looking for duplicates, out of period transactions, unexpected tax rates, or transactions that should be excluded etc
- **Provide access to previous reports** to facilitate trend analysis
- **Apply trend analysis** to accelerate the review process, gather insights and enable forecasting

'USING A COMPLIANCE ENGINE IN CONJUNCTION WITH SPREADSHEETS CONFERS GREATER ACCURACY, INCREASED CONTROL AND SAVES TIME.'

- **Automate processes** to reduce the amount of manual intervention and eliminate key man dependency
- **Provide audit/review processes** that link back from the return to the source data to reduce the likelihood of enquiries from HMRC
- **Draw upon tax logic** allowing it to update the workflow to remain compliant with future legislative requirements

Using a compliance engine in conjunction with spreadsheets therefore confers greater accuracy, increased control and saves time.



## CONCLUSION

The pace of compliance is driving change and businesses are being forced to adapt. Many are now at a crossroads where they need to decide whether they will do the minimum to comply or embrace change and begin to review and revise their processes.

Those who recognise that tax has become business critical will need to look at their systems architecture. They'll need a compliance solution that can integrate with their existing legacy accounting systems and do the heavy lifting previously done by spreadsheets.

By acknowledging the inevitability of digitalisation, these businesses will be ahead of the curve and able to reap the benefits. They'll be able to automate data cleansing, perform and validate complex calculations and enable data to flow across the organisation.

Plus they will be well positioned for both any increase in scrutiny and further regulatory change.

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