8 reasons why you need VAT compliance software

BY ANDY MILLS

STILL DECIDING ON HOW YOU WILL **COMPLY WITH MTD?**
WE EXPLORE THE WAYS YOU CAN USE THE DIGITAL LINKS
MANDATE TO **IMPROVE YOUR VAT PROCESS**.

HMRC suggests various ways to comply with the digital links Making Tax Digital mandate due to come into effect from this April. But it has also stated that some software "cannot cope with adjustments" and "you won't get the full benefit of the MTD experience" if you resort to doing the bare minimum to comply.

KEY CRITERIA

There are some important considerations here that go beyond what will tick this summer's compliance box. All of the options put forward by HMRC will make you compliant. These are:

- Emailing a spreadsheet containing digital records so the information can be imported into another software product
- Transferring a set of digital records onto a portable device e.g pen drive and physically giving this to someone else who then imports that data into their software
- XML, CSV import and export, and download and upload files
- Automated data transfer
- API transfer
- Other methods (HMRC don't supply an exhaustive list)

But not all of them will suit your business. If you've taken our **VAT Risk Assessment** then you'll know that the best compliance option for you is largely determined by the complexity of **your VAT process**.

There are also other considerations to bear in mind. Will your VAT process need to change in the near future? Do your VAT processes align with digital improvements in other area of the finance function? Could MTD give you the justification you need to push for wider improvements in your working practices and technology options? Or do you need to leverage the data held within the tax process to better inform commercial decisions?

Knowing what you want to achieve out of the MTD process and any longer terms goals around better efficiency and increasing reporting accuracy should also inform your compliance decision. To help you review what's important, we've devised our **top eight reasons** why a compliance software platform could help.

1. REDUCES TIME/RESOURCE

Tax teams spend too much time each year checking and correcting tax data, with 20% of businesses spending more than 50 days per year just producing their VAT Returns. From checking and validating source data to verifying the final calculations at the final review, the process can be very manually intensive.

Automating the collection, preparation and management of tax data can significantly reduce the compliance burden of VAT. For instance, we recently helped a business reduce its manual workload by 28 days a quarter across their 18 VAT-registered entities.

WE RECENTLY HELPED A BUSINESS REDUCE ITS MANUAL WORKLOAD BY **28 DAYS A QUARTER** ACROSS THEIR 18 VAT-REGISTERED ENTITIES.

2. AUTOMATES COMPLEX CALCULATIONS

Businesses that need to perform calculations such as Partial Exemption can find VAT particularly onerous. They will often need to deal with thousands of transactions and dozens of data sources and spreadsheets to carry out recovery calculations.

Whilst certain complex calculations (e.g. Partial Exemption) don't have to be incorporated into the MTD digital links process, doing so can dramatically reduce the risk of error and provides you with an unbroken digital trail right back to the data source. One business we dealt with was spending 15 days a quarter just managing transactions to ensure all line items were classified in accordance with their PESM.

Aside from attribution to cost centres, other steps such as blocking and excluding transactions can also be highly time intensive. One large financial organisation told us they had to manually filter through 35,000 transactions to identify 35 non-claimable items during their last reporting period.

Should the conditions of the PESM change, this can also cause disruption and be expensive. Businesses will often rely on a third party consultant or advisor to make the changes on their behalf to financial software and this can easily incur charges that run into five figures. Using VAT compliance software, on the other hand, enables you to add or change data sources or filtering criteria at the click of a button, with no need for external support.

3. REDUCES SPREADSHEET DEPENDENCY & RISK OF ERROR

Spreadsheets are a common source of mistakes – it is estimated that up to 88% contain errors – due to incorrect formulas and broken macros that can see mistakes introduced that then go undetected. One large business we work with spent 15 days annually just checking the integrity of spreadsheets before even starting to review their transaction data.

The MTD mandate provides an opportunity to reduce dependency on spreadsheets by adopting a VAT automation platform that can automatically import data and perform calculations within the software.

Reducing reliance on spreadsheet-based processes means there are less datapoints to manage and less risk of error. Additionally, you can also easily manipulate data through automatic filtering, allocation and checking, providing you with more confidence about the integrity of your results.

ONE LARGE BUSINESS WE WORK WITH SPENT **15 DAYS ANNUALLY** JUST CHECKING THE INTEGRITY OF SPREADSHEETS BEFORE EVEN STARTING TO REVIEW THEIR TRANSACTION DATA.

4. ENABLES ERROR CHECKING/CORRECTION

Tax teams have very little control over the quality of the source data they are given, with files coming from ERP and accountancy systems or tax packs via email. In a recent survey conducted in association with **Accountancy Age** we found 70% of organisations were not fully confident in their reported VAT figures whilst 12% had "broad concerns".

Compliance software can improve confidence in the process by scanning data at the point of ingress and search for anomalies.

These are then be flagged to the tax team for investigation, which in turn speeds up the review process.

Knowing whether your Return is accurate provides peace of mind because you know it's less likely to contain errors which could trigger an audit by HMRC. If HMRC detects an error it will stop the 30 day clock which begins when you submit your Return, effectively delaying any repayment you are due, so it can be costly as well as disruptive.

5. PERFORMS DATA ANALYSIS

Rather than being a mandatory burden, the VAT process can become a window into the cashflow of the business. By comparing specific periods, you can see the day-to-day functioning of the business, create more accurate forecasts and carry out comparisons against projected liabilities or repayments.

Applying data analytics to the process also gives the business more visibility which equates to more control. Having instant access to the figures enables the finance or tax team to move from a retrospective 'rear view mirror' stance to a more forward looking one whereby more time can be devoted to tax planning.

DIGITALLY LINKING THE ENTIRE PROCESS ALLOWS TAX AND FINANCE TEAMS TO **QUICKLY AND EFFICIENTLY RESPOND TO ANY QUERIES FROM HMRC**, SHOULD THEY ARISE.

6. CREATES A DIGITAL AUDIT TRAIL TO TRACK & PROVE COMPLIANCE

A major benefit from the implementation of digital links is that it creates a fully auditable, digitally linked trail, enabling you to track back through adjustments and calculations to determine the potential source of an error. Provided, that is, you digitally link all aspects of the process, including calculations (it is currently not mandatory to link to all calculations).

Digitally linking the entire process allows tax and finance teams to quickly and efficiently respond to any queries from HMRC, should they arise.

BEING ABLE TO **QUICKLY PRODUCE THE NECESSARY EVIDENCE** TO FEND OFF THE PROSPECT OF A COSTLY AND TIME-CONSUMING AUDIT WILL BE **A REAL BENEFIT**.

7. FUTUREPROOFS THE BUSINESS AGAINST CHANGE

Prior to the pandemic, HMRC planned to increase the compliance yield with 1,300 additional compliance officers and new technologies to supplement its Connect system. That pressure has now intensified as the Coronavirus has seen tax take fall dramatically.

From April 2020 to January 2021, total tax receipts were £65.2 billion lower mainly due to VAT (£37.6bn) and corporation tax (£13.2bn).

Given the chancellors reluctance to raise tax rates, apart from the increase in CT planned for 2023, this means that significant efforts will be concentrated on reducing the tax gap which stood at £31bn for the 2018-19 tax year, £10bn of which has been attributed to VAT.

Businesses will want to ensure they have adequate technology in place to both prove their compliance with the MTD mandates and that they are paying the correct amount of tax.

Being able to quickly produce the necessary evidence to fend off the prospect of a costly and time-consuming audit will be a real benefit. This is only possible if you have the detailed digital audit trail capabilities outlined above (point 8).

Further down the road, should HMRC decide to change requirements under MTD for VAT, a business will also need to be able to accommodate any changes. Having compliance software in place that is automatically updated via tax logic in line with the latest regulations can help the organisation meet these demands without any disruption to its process.

FOR THE BUSINESS IT MAKES SENSE TO **INVEST IN A TAX TECHNOLOGY SOLUTION** THAT HAS DEMONSTRATED ITS **VERSATILITY** AND **CUSTOMER SUPPORT**.

8. PROVIDES A PATH TO A 'SINGLE SOURCE OF TRUTH'

The pandemic is reshaping working practices and it's now widely accepted that some form of remote working is here to stay. This has and will increase pressure on IT systems to become more flexible and tax will be a key part of this. Tax teams need secure access to data, control and oversight of how and by whom it is manipulated and need to be able to review and amend calculations. It's for these reasons that we've seen such rapid advances made over the past year in VAT compliance technology, from integration with accounting systems through to access controls, data cleansing and analytics.

Tax technology is continuing to evolve, moving into the Cloud and using new technologies to provide more visibility, but development teams have also got one eye on the future. The expectation is that tax technology is moving towards achieving a '**single source of truth**'; that is a common data set of data which can be used to fulfil all tax computations. Rather than completing each tax Return individually, from scratch, the tax team will be able to utilise this pool of data to meet the demands of real-time reporting. We're already seeing moves towards this in the form of MTD for corporation tax and HMRC has already stated that its "long term vision" is for "all taxes [to be] managed through a single, digital account, with similar, effortless processes" to MTD for VAT.

A compliance solution that is well supported and invested in by the vendor will evolve and adapt to realise the ambitions of tomorrow, so for the business it makes sense to invest in a tax technology solution that has demonstrated its versatility and customer support.

SO TO SUM UP...

MTD mandation in itself is a catalyst for broader digitalisation of tax processes; it should provide a foundation for improving processes, driving efficiency and increasing data accuracy. The capabilities of the tax technology you choose for MTD phase 2 will determine how quickly your organisation is able to take advantage of the opportunities digitalisation provides in a changing work environment.

To find out more about how our AlphaVAT compliance platform can help you get the most out of MTD, ensure compliance and futureproof your business, **contact us for a one-to-one demo.**