

# Foreign Exchange – solved!

## Introduction

At Tax Systems, we have over 150 customers using AlphaVAT, our VAT cloud solution. While they all have compliance obligations here in the UK, a lot of their businesses operate globally which can bring unique challenges to a VAT process.

During our time working with these businesses, we often come across Foreign Exchange (“FX”) calculations that are being performed within Excel as part of the VAT reporting process. When considering compliance alone, this is generally allowed under the phase 2 “digital links” requirement from HMRC, as long as the calculations are linked from source to report.

However, this is generally not considered best practice. HMRC insinuates in VAT Notice 700/22 that it is better to perform such functions within MTD software as “using software for all your calculations will reduce the risk of errors in your returns”.

Performing calculations within spreadsheets dramatically increases the risk of human input error or of a computing error caused by an incorrect formula or broken macro, with research suggesting up to 88% of spreadsheets contain such errors.

## Listening to the market

Part of the reason why our product function is so successful in this market is because we have an open feedback framework with our customers and prospects. Any feedback we receive is logged in a tool and acted upon swiftly by our Product Team.

We saw a number of requests for automation of FX calculations, and so we set about interviewing our clients to ensure that we built the right solution for them. From speaking with them, we learned that many users (though, not all) opted to use the HMRC rates and typically keyed the relevant ones into an Excel file as part of their VAT process.

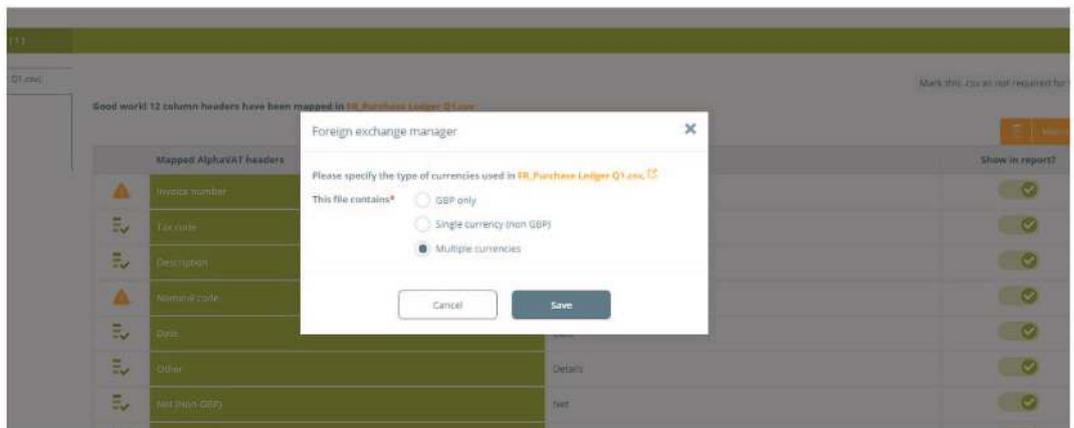
## Our solution

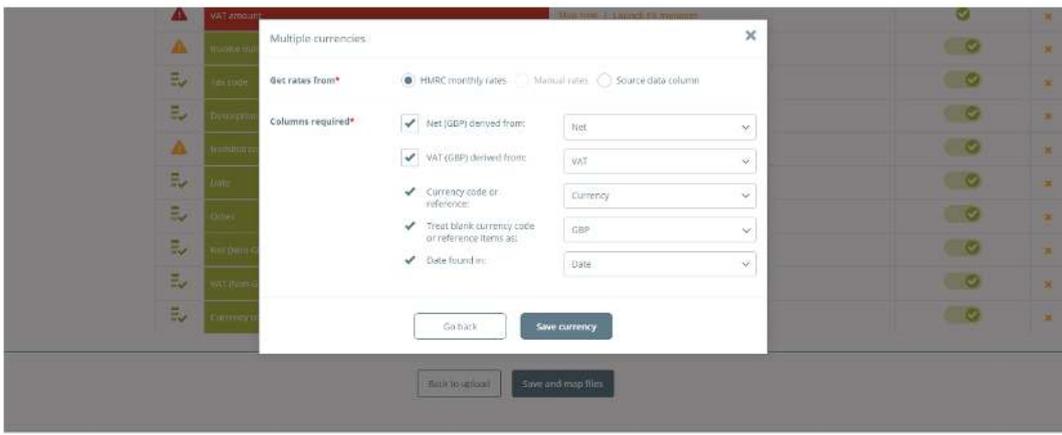
### How do we get the data?

We wanted to make this process as automated and seamless as possible. We found that the HMRC rates were updated monthly and could be extracted automatically using an API. So that’s exactly what we did. We built a pipeline to ensure that the rates published by HMRC were automatically pulled into AlphaVAT and applied to data, removing both the need for the user to do this themselves, but also the risk of mistyping the rate into Excel.

### How are they applied?

The process of applying FX rates in AlphaVAT couldn’t be simpler. The user defines a few simple settings – the type of currencies used in the source data file, plus the columns required for conversion.





Following these steps, AlphaVAT will automate the conversion of the relevant transactions and users can review the results in their VAT summary report:

Your VAT Return has been calculated, please check the figures generated in the preview below.

REPORTS	PURCHASES													
Invoice number	Date	Tax code	Description	Nominal code	Other	Currency code	Net (Non-GBP)	VAT (Non-GBP)	Exchange rate	Net (£)	VAT (£)	Notes		
0023	02/01/2021	T1	General expenses	1002	General office overheads (London)	EUR	212.88	43.57	1.10750000	192.29	38.44			
0044	02/01/2021	T1	Office stationery	1000	Printing paper and ink (London)	USD	51.63	10.32	1.34970000	38.25	7.85			
0035	02/01/2021	T1	Software & technology	3064	MyERP Limited software expense	GBP	189.99	34.00	1.00000000	189.99	34.00			
0036	02/01/2021	T1	Materials	2030	Trade Invoiced for generation of stock	EUR	20,000.00	4,000.00	1.10750000	18,056.69	3,611.74			
0007	02/01/2021	T1	Subcontractor costs	8007	Outsourced operational expenses	USD	5,536.00	1,105.20	1.34970000	4,094.34	818.85			
0008	02/01/2021	T1	Telephone & Internet	1026	Monthly charges (London)	GBP	269.84	53.97	1.00000000	269.84	53.97			
0009	02/01/2021	T1	Consultancy fee	6000	Operational services (Consultant fees)	EUR	3,850.00	710.00	1.10750000	3,385.42	641.08			
										<b>£</b>	<b>2,176,546.46</b>	<b>£</b>	<b>304,923.77</b>	<b>13.90%</b>

## What about non-HMRC rates?

We know that not all clients will use HMRC rates, which is entirely allowed should the client choose to do so. In this instance, these customers can still get the benefit of using our integrated FX functionality. Rather than using the HMRC rates, the user can upload the rates via Excel and AlphaVAT will apply those rates to the transactions instead.

## A client example

In a recent implementation example, we found that our client extracted data in USD and EUR, as well as GBP. This meant that they had to add an extra step to the process where they used a VLOOKUP in Excel to translate the amounts in the file so that all figures were then presented in GBP for onward processing. By following our new FX process within AlphaVAT, the client was able to remove this step from the process and instead configure the translation to happen within AlphaVAT. Not only did this save time, but it ensured that the rates being used were always correct, removing the possibility of transposition errors.

## What does this mean?

At Tax Systems, we believe that compliance with MTD for VAT is just the beginning for our customers. While the "digital links" requirement is a start, we have seen our users move their entire process into a dedicated indirect tax solution to drive automation and improve accuracy and efficiency. Adopting a dedicated tax solution also ensures they are future-proofed against any forthcoming changes from HMRC.

Tax Systems has been a leader in the compliance technology market for almost 30 years and our Digital Compliance Platform provides the ultimate response to MTD. We transform highly complex regulation into simple, user friendly products which deliver tangible benefits.

Our ambition? To deliver Digital Compliance that is faster, better and smarter. Over 1,000 businesses use our products including 43% of the FTSE 100, and over 150 accounting firms in the UK and Ireland.

To find out how Tax Systems can help you automate your VAT process, contact us today at [enquiries@taxsystems.com](mailto:enquiries@taxsystems.com) or on 01784 777 700.

