

Agents' views towards Making Tax Digital for business and the Single Financial Account

HMRC

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Glossary

Term	Definition
Accountant	Third party intermediaries who conduct some or all of the accounting and tax affairs of the business or individual they have been appointed to represent. For this project, accountants were businesses with the Standard Industry Code 69201: Accounting, and auditing activities.
Bookkeeper	An agent specialised in recording financial information. For this project, bookkeepers were businesses with the Standard Industry Code 69202: Bookkeeping activities.
CT	Corporation Tax: A tax on the taxable profits of limited companies and some organisations including clubs, societies, associations, co-operatives, charities and other unincorporated bodies. The Government has prioritised the Corporation Tax rate as a key way to increase UK competitiveness. The Corporation Tax rate changes announced in Budget 2015 announced it would be lowered from 20% to 18% by 2020 (with an interim drop of 1% in 2017).
Cloud-based	Cloud –based computing systems allow for different services e.g. software, servers and storage) to be accessed by users remotely over the internet.
Government Gateway	The Government Gateway is a website available to access a range of online government services.
ITSA/SA	Income Tax Self-Assessment/ Self Assessment is a system HM Revenue and Customs (HMRC) uses to collect Income Tax. Tax is usually deducted automatically from wages, pensions and savings. People and businesses with other income must report it in a tax return.
MTDfB	Making Tax Digital for Business: Making Tax Digital for Business aims to transform the tax system for businesses, including companies, sole traders, self-employed people, partnerships and property landlords by requiring customers to keep digital records through software or apps and update HMRC with summary tax information on a quarterly basis. The aim of MTDfB is to make tax administration more effective, more efficient and easier for taxpayers to see what they owe, cut out mistakes and save time spent trying to resolve problems.
PAYE	Pay As You Earn: Employers normally have to operate PAYE as part of payroll. PAYE is HM Revenue and Customs' (HMRC) system to collect Income Tax and National Insurance from employment.

SFA	Single Financial Account: The SFA aims to provide taxpayers with an integrated view of their tax liabilities and entitlements as well as their net liability position in one place.
Tax consultant	A tax advisor or tax consultant is a financial expert specially trained in tax law, tax planning and compliance. For this project, tax consultants were businesses with the Standard Industry Code 69203: Tax consultancy.
VAT	Value Added Tax: The tax paid on most goods and services. There are three rates of VAT – standard: 20%, reduced: 5% and zero rate: 0%.

1 Executive summary

Introduction & background

- 1.1 Making Tax Digital (MTD) is a key part of the government's initiative to transform HM Revenue and Customs (HMRC) into a world-leading, digital tax authority. It is envisaged that the programme will reduce the burden for individuals and businesses to keep on top of their tax affairs, with digital tax accounts meaning the end of the annual tax return for millions.^{1 2} HMRC's ambition is to develop a modern tax system based on digital technology which will make it easier for businesses to get their tax right. Reducing the amount of avoidable errors will also reduce the cost, uncertainty and worry that businesses face when HMRC is forced to intervene to put things right.
- 1.2 This qualitative research examined two aspects of MTD, Making Tax Digital for Businesses (MTDfB) and the Single Financial Account (SFA)³. The primary aim of this research was to explore agents' responses to these new digital services and to understand how to effectively engage agents with MTDfB.

What types of agents participated in this research?

- 1.3 Sole-traders and micro businesses (i.e. one to five employees) based at a single site were purposefully selected as the research focused on smaller sized agents. Agents were typically very experienced in their respective fields, with most having worked as accountants, bookkeepers or tax consultants for between 10 and 20 years. Often these agents had personally established their firms.
- 1.4 Many agents were members of professional bodies, although a mix of members and non-members participated in the research. Common membership bodies included the Institute of Chartered Accountants in England and Wales, the Association of Chartered Certified Accountants, the Chartered Institute of Taxation and the International Association of Bookkeepers. Among the agents that were not members of professional bodies tax consultants featured more prominently than accountants and bookkeepers.
- 1.5 Most agents provided their clients with a wide range of different services, with many defining themselves as 'full service' because they offered a relatively wide variety of services. This included checking and submitting tax returns; managing payments; record keeping; and communicating with HMRC on their clients' behalf.
- 1.6 The types of services provided by agents were heavily influenced by the requirements of their clients (i.e. they tailored their services to meet the needs of their clients rather than their client base reflecting the types of services they proactively offered). Many factors shaped the requirements of clients, but two of the most prominent were the characteristics of the client's business, for example size and sector, and the ability and willingness of clients to undertake work themselves (e.g. some clients prepared their SA returns in-house).

¹ [Overview of Making Tax Digital \(July, 2017\)](#)

² <http://webarchive.nationalarchives.gov.uk/20161207201022/https://www.gov.uk/government/publications/making-tax-digital>

³ [Making Tax Digital: Voluntary pay as you go \(August, 2016\)](#)

- 1.7 Most agents had around 20 business clients and clients were predominantly nano businesses with no employees or micro businesses with one to five employees. Most agents represented clients liable for ITSA, VAT and CT. These clients operated in a wide variety of sectors, although predominately worked in construction (e.g. plumbers or bricklayers) or retail (e.g. shops and restaurants).

Current levels of digital engagement

- 1.8 Most agents were highly engaged with digital technology, with many utilising software to prepare tax returns and nearly all agents submitted returns to HMRC digitally via the Government Gateway. Digitally engaged agents used a wide variety of different software packages, which tended to be standard off-the-shelf packages. There were no commonalities in terms of which packages were used for different processes, rather it was dependent on personal preference. A few agents utilised more than one software package to accommodate the different types of tax returns.
- 1.9 Most agent's clients were also engaged with digital technology for record keeping. Typically, these clients recorded the information in spreadsheet software and shared them with agents via email, USB sticks or file transfer platforms rather than using dedicated platforms through which the agent could access data remotely. Nearly all agents reported having some clients that were not engaged at all with digital technology. These clients often kept their records on paper and delivered them to their agent in person. In these instances, clients typically provided their records in paper ledgers, though some delivered disorganised collections (e.g. in carrier bags or shoeboxes) to agents.
- 1.10 Where clients used dedicated software (as opposed to spreadsheets), most agents reported being able to remotely access their information through digital technology. Where clients did not use dedicated software, agents only had access to the information that was provided to them (i.e. via email, secure transfer or in hard copy).
- 1.11 Agents that were less digitally engaged were typically older and semi-retired. Most of these agents did not use digital technology because they lacked the skills to do so and felt more comfortable using the manual processes they were accustomed to. Instead of using digital methods, these agents typically prepared tax returns on paper and only worked for smaller businesses that tended to be non-VAT clients that provided tax records in paper form. These agents showed little interest in beginning to do tasks digitally, with many planning to stop practicing once MTDfB came into effect.

Awareness and understanding of MTDfB

- 1.12 Most agents were aware of MTDfB before being contacted in relation to this research. They had heard of MTDfB through several channels including communication from HMRC, the Budget 2015 announcement, newspapers and trade press. A couple of agents also highlighted that their professional body keeps them up-to-date with information.
- 1.13 While most agents understood the general premise of MTDfB, many did not have a detailed understanding of the programme and were unaware of the timeframes, eligibility criteria and practical/logistical considerations (software compatibility etc.).
- 1.14 In this context, agents had rarely raised the topic with their own clients as they did not have enough understanding of the programme to discuss the preparation for MTDfB. In the few

instances where agents had mentioned MTDfB to clients, typically this only involved a basic overview of the programme.

- 1.15 There was a consensus among agents that HMRC needed to provide more information about MTDfB so that they can explain the programme's rationale, the nature of the changes and their advantages to clients. Some agents stressed that it would be their responsibility to advocate compliance with MTDfB to businesses as their clients would not be receptive to communications from HMRC.
- 1.16 There was a difference in the levels of awareness and understanding of MTDfB between members and non-members of professional bodies. Members tended to have a greater understanding of how MTDfB would work in practice, and in some giving way to a more positive outlook for the changes.

The perceived opportunities and threats of MTDfB

- 1.17 On balance, most agents participating in the research were neither wholly positive nor negative about MTDfB – perceiving both opportunities and threats to their business models. Agents envisaged that on the one hand MTDfB could increase the workload of agents which might result in increased revenue for agents. On the other hand, they expected that MTDfB would constitute more work for them and they may not be able to pass on the additional costs to their clients and therefore may have to absorb this extra cost.
- 1.18 Nearly all agents thought that MTDfB presented them with at least some opportunities. The most commonly mentioned were related to changes under MTDfB which will affect their workload. Agents expected an increase in workload due to quarterly updating as they would need to spend more time delivering more frequent services to their clients. This could potentially result in agents' revenue increasing. A reduction in the amount of administrative work for agents was also expected as information will be more up-to-date. Some foresaw their role changing in that some businesses would be less inclined to do the work themselves and therefore employ the agent to take on additional tasks. Agents also mentioned MTDfB could provide them with more access to client's tax information, and could result in time saving if some tasks are more automated.
- 1.19 However, most agents also thought that MTDfB presented them with some challenges. The two most prominent were an anticipated increase in workload which would require more hours spent by the agent providing services to their client and more costs (associated with increased workload and investment in new software and training). These agents, instead of seeing the increase in workload as an opportunity to increase their fees, had concerns that they would either have to absorb the extra cost or risk losing clients. Some agents saw the introduction of MTDfB as detrimental to their role because of processes becoming more automated and felt clients would have more direct contact with HMRC and less of a need for them.
- 1.20 Although only representing a small number of those agents participating in the research – some agents felt very strongly about the opportunities/threats which could be generated by MTDfB:
 - Some saw a wide range of opportunities as defined in paragraph 1.18 and only a handful of challenges or in some cases no challenges at all. These agents were more likely to be accountants than bookkeepers or tax consultants and all were members of professional

bodies. These agents were typically more digitally engaged, often remotely accessing their clients' tax affairs. Clients were therefore already accustomed to providing information to agents in digital form.

- By contrast, some agents did not think MTDfB would bring about any opportunities at all. These were typically not members of professional bodies, tended to work for clients with a low level of digital engagement, and were typically bookkeepers. Most of these agents' clients provided tax information in paper form and very few used accounting software to manage their accounts. Therefore, these agents anticipated that MTDfB would be a steep transition for their clients and therefore their clients would find it difficult to meet the requirements.

- 1.21 To help agents overcome the perceived challenges for MTDfB agents suggested that HMRC need to ensure provision of a standard software package for clients that is simple to use, and should implement a 'soft launch'. By this, agents referred to a period of time when MTDfB becomes mandatory to allow a grace period for agents and businesses to fully get used to the changes before penalties become enforced. Several agents were aware of the pilot and a couple of agents highlighted that they would like to be involved in it in order to gain first-hand experience of how MTDfB will work in practice.

Reactions to the Single Financial Account (SFA)

- 1.22 Many agents responded positively to the concept of an SFA, believing that the ability to see all tax information in one place would benefit both agents and clients. It was felt that the SFA would allow them to have a better understanding of the client's overall tax situation and would save the agent time in finding this out from multiple sources. These agents typically envisaged that the introduction of the SFA would lead to an increased level of access to clients' information.
- 1.23 While the overall reaction towards the SFA was positive, several highlighted their concerns that HMRC could make a mistake or that there could be an error with the online system. A few agents also had concerns about the perceived 'lack of control' of transactions – particularly if there was a specific reason why an agent and client might want to prioritise one debt over another.

2 Introduction

Background

- 2.1 Making Tax Digital (MTD) is a key part of the government's initiative to transform HM Revenue and Customs (HMRC) into a world-leading, digital tax authority. It is envisaged that the programme will reduce the burden for individuals and businesses to keep on top of their tax affairs, with digital tax accounts meaning the end of the annual tax return for millions^{4 5}. HMRC's ambition is to develop a modern tax system based on digital technology which will make it easier for businesses to get their tax right. Reducing the amount of avoidable errors will also reduce the cost, uncertainty and worry that businesses face when HMRC is forced to intervene to put things right.
- 2.2 This research examined two aspects of MTD, Making Tax Digital for Business (MTDfB) and the Single Financial Account (SFA).
- 2.3 Making Tax Digital for Business will require businesses to keep digital records through software or apps and update HMRC with summary tax information on a quarterly basis. As an initiative to reduce the tax gap, MTDfB will help businesses steer clear of avoidable errors in their record keeping and submissions to HMRC. In helping businesses get their tax obligations right first time, MTDfB will also provide more certainty and a clearer view of their tax position. The Single Financial Account (SFA) is part of MTD which will provide taxpayers with a single view of their tax liabilities and entitlements by 2020.
- 2.4 At Budget 2015, the government set out its vision for MTDfB stating that it will affect businesses, self-employed people and landlords. It was announced in July 2017, that businesses with a turnover above the VAT threshold (currently £85,000 per annum) will be required to start using the new MTD system to meet their VAT obligations from April 2019. Smaller businesses with a turnover below the VAT threshold will not be mandated to use the new system, but can do so voluntarily. Businesses will not need to use the new MTD system for other taxes (e.g. Income Tax) until at least 2020⁶ but can choose to do so.

Aims and Objectives

- 2.5 The primary aim of this research was to explore agents' responses to new digital services - MTDfB and the SFA - and to understand how to effectively engage agents with MTDfB.

⁴ [Overview of Making Tax Digital \(July, 2017\)](#)

⁵ [Making Tax Digital: Voluntary pay as you go \(August, 2016\)](#)

⁶ During the research period, the implementation plans for MTDfB changed. The timeframe initially set out at Budget 2015 was for the new digital service was from April 2018 for income tax & National Insurance Contributions (NICs); from April 2019 for those registered for and paying VAT; and from April 2020 for those paying corporation tax.

- 2.6 Agents were the focus of the research because the majority of small and medium sized businesses use an agent to manage some or all of their tax affairs and/or engage with HMRC on their behalf. Tax agents will therefore play an essential role in the transition to MTDfB.
- 2.7 In light of this, the specific objectives of the research were:
- To understand agents' role under MTDfB and how to effectively engage with and leverage agents as intermediaries of MTDfB.
 - To understand how agents will engage their clients with MTDfB.
 - To understand the practical changes to agent tasks and processes due to MTDfB including administrative burden; client engagement; and, the range of services they offer.
 - To identify solutions and support needs for agents during the transition to these digital services.
 - To inform the design of the digital services so that the services HMRC provide can operate effectively and efficiently for tax agents.

Methodology

- 2.8 A qualitative approach was adopted, which included 36 in-depth interviews and 4 focus groups. This approach was considered the most appropriate for the research because the rapport developed with agents in one-on-one and group discussions would encourage them to provide an open and detailed account of their views towards HMRC's new digital services. No agents participated in both in-depth interviews and focus groups.
- 2.9 The in-depth interviews were recruited using a sample of 600 tax agents purchased from Market Location. The focus groups with accountants, non-members of professional bodies and bookkeepers were recruited through a free-find exercise. The focus group with less digitally engaged agents were recruited using HMRC data on agents who make paper submissions.
- 2.10 The in-depth interviews sought to develop a general understanding of agents' businesses and their clients; their awareness and understanding of MTDfB; the envisaged effect of MTDfB; the support they thought would be required for agents and clients; and their reaction to the concept of the SFA. The focus groups sought to build upon the findings of the in-depth interviews, with more focus on the support needs for agents and clients during the transition to MTDfB.
- 2.11 The in-depth interviews were conducted with a variety of types of agents. Quotas were used to ensure the inclusion of certain types, including agents from different sizes of firms (with a maximum of 49 employees), agents with differing levels of digital engagement and agents that were both members and non-members of professional membership bodies. The in-depth interviews were mostly conducted face to face, except for three which were conducted over the telephone. The interviews lasted around 1.5 hours on average.
- 2.12 Table 1.1 summarises the key characteristics of the agents who took part in the qualitative depth interviews.

2.13 Focus groups were conducted in London. Each group contained agents of similar characteristics. This approach ensured a degree of homogeneity among participating agents, as a sense of commonality of experience enables participants to speak freely about their views and experiences. Table 1.2 shows the type of agent in each group and the number of agents that participated.

Table 1.1: In-depth interview participants

Key characteristics	Number of in-depth interviews
Type of agent	
Accountant	12
Bookkeeper	11
Tax consultant	13
Number of employees	
Sole trader	16
1 to 9	14
10 to 49	6
Number of clients	
1 to 9	3
10 to 49	16
50 to 249	9
Over 250	8
Professional membership status	
Members	24
Non-members	12

Table 1.2: Focus group structure

Focus Group date	Audience	Number of participating agents
1: July 18 th 2017	Accountants	6
2: July 18 th 2017	Non-members of professional bodies	6
3: July 19 th 2017	Bookkeepers	4
4: July 19 th 2017	Less digitally engaged agents	4

Fieldwork period

2.14 Fieldwork took place between 21st March and July 19th 2017. The fieldwork period for this research was longer than originally scheduled due to the announcement on April 18th 2017 that a general election would take place on June 8th 2017. Between the announcement of the election and the final election result, fieldwork was suspended.

Interpretation of findings

- 2.15 Throughout this report the findings from the depth interviews and the focus groups are covered together to provide a holistic view of agents' attitudes and behaviours. The findings show the spread of opinions among research participants. The nature of qualitative research means there can often be a wide range of differing views.
- 2.16 While qualitative research will provide rich detail on individual circumstances, the aim of qualitative research is not to extrapolate findings to the wider population. Findings should therefore be interpreted in this context and should not be taken as representative of all agents.

3 Characteristics of agents and their business clients

- 3.1 This chapter details the characteristics of the agents that participated in the research and describes the types of business clients they worked for and the services they offered them.

Characteristics of agents

- 3.2 The majority of agents that participated in this research were nano businesses or micro businesses (i.e. one to five employees) based at a single site. Some participating agents worked in larger agent firms that had in excess of 10 employees, with some operating across multiple sites.
- 3.3 Agents were typically very experienced in their respective fields, with most having worked as accountants, bookkeepers or tax consultants for between 10 and 20 years. Often these agents had personally established the firm.
- 3.4 A few agents, however, were relatively new to working as accountants, bookkeepers or tax consultants. These agents were likely to have established their own firm within the last three years. Some had launched these firms as their first career while others had begun practising as agents after retiring from careers in other industries (e.g. banking). These agents submitted tax returns digitally to HMRC.
- 3.5 Many agents were members of professional bodies. Common membership bodies among agents included ICAEW, ACCA⁷, the Chartered Institute of Taxation and the International Association of Bookkeepers. Among the agents that were not members of professional bodies tax consultants featured more prominently than accountants and bookkeepers.

Characteristics of business clients

- 3.6 Most agents participating in this research had around 20 business clients, though some had over 100 and a few over 250. As well as business clients, many agents also had individual clients that used the agent for personal tax services (e.g. inheritance tax).
- 3.7 The business clients of most agents were predominantly sole-traders or micro businesses with fewer than five employees. These clients operated in a wide variety of sectors, though most worked in construction (e.g. plumbers or bricklayers) or retail (e.g. shops and restaurants).
- 3.8 While most agents' clients were nano businesses or micro businesses, a few agents worked for clients that were considerably bigger in terms of turnover and employees. Some of these clients had over ten members of staff and had annual turnovers of more than £1 million. Whilst many of these larger clients were in the same sectors as the typical client (i.e. construction and retail), some of the larger clients also operated in the IT and Manufacturing sectors. Agents dealing with these types of clients were more likely to deal with corporation tax on behalf of their clients.

⁷ Institute of Chartered Accountants in England and Wales (ICAEW) the Association of Chartered Certified Accountants (ACCA)

Agent services

3.9 Most agents provided clients with a wide range of different services, with some describing themselves as 'full service' agents because they offered a relatively wide variety of services. The services commonly provided to clients included:

- The preparation and submission of tax returns for:
 - Income Tax Self-Assessment;
 - VAT;
 - Payroll; or
 - Corporation Tax.
- Bookkeeping;
- Management of payments;
- Incorporation of businesses and maintaining Companies House records;
- Pensions;
- Financial audits and compliance checks;
- Testing and checking financial systems;
- Advice (e.g. tax planning, business plans and cash flow forecasts); and
- Communicating with HMRC (e.g. replying to HMRC correspondence).

3.10 There was considerable overlap between accountants, bookkeepers and tax consultants in the services they provided, though the range of services offered and the focus of service provision differed slightly between the different types of agent. For example, accountants were typically more involved in the preparation and submission of tax returns (e.g. ITSA, VAT and Corporation Tax) while tax consultants were usually more focused on providing advice on how to achieve tax efficiency (e.g. Trusts and tax incentives). Bookkeepers on the other hand focused mostly on record keeping.

3.11 The types of services offered by agents were heavily influenced by the requirements of clients. The different needs of different clients meant that most agents did not offer an off-the-shelf service, instead services were tailored to each individual client's needs. Many factors shaped the requirements of clients, but two of the most prominent were the characteristics of the client's business (e.g. size and structure) and the ability and willingness of clients to undertake work themselves.

3.12 Smaller clients typically required fewer services than larger clients because of having less complicated tax affairs. With lower turnover and fewer employees, smaller businesses had less tax obligations than their larger counterparts. However, this did not necessarily mean that the tax affairs of small businesses were less burdensome for agents than the tax affairs of large businesses. In many cases, agents reported having small business clients that deliver

disorganised tax records which require agents to spend more time organising and interpreting the information.

- 3.13 The industry the client's business operated in also influenced the services they required from their agent. This is because some businesses had tax liabilities that were specific to their sector. For instance, some construction businesses needed assistance with the Construction Industry Scheme while some businesses in the retail sector needed assistance with Machine Games Duty.
- 3.14 In terms of the ability and willingness of clients to undertake work themselves, some clients were comfortable looking after certain elements of their tax affairs in-house (e.g. preparing SA returns) and only required specific services from agents (e.g. checking and submitting SA returns). These clients did however still use agent services for tax affairs that they were less comfortable handling themselves (e.g. VAT and CT). Other clients were not willing to deal with any of their tax affairs and so enlisted their agent to look after all aspects, including record keeping.

"The ones we do least for are where the client is more controlling and like to have a hands-on approach; they like to push the button and know how much they are paying at the end of the day. For some of the others, they can't be bothered or are just too busy."

Bookkeeper, Sole trader, Not a member of a professional body

4 Current digital engagement

- 4.1 This chapter explains the extent to which agent and their clients engaged with digital technology for tax purposes and the effect this has on the work agents did and the access they had to client tax information.

The digital engagement of agents

- 4.2 Nearly all agents used accounting software to prepare tax returns for clients. A wide variety of different software packages were used, and these were typically off-the-shelf as opposed to bespoke. Often agents had more than one software package, with different packages being used for different processes. There was no consensus among agents about which software packages were used for which process.
- 4.3 Some agents had recommended that their clients use software to assist them in their record keeping. Usually, these agents did not recommend a specific type of software. Recommendations made were based on the needs of the client. It was mentioned that the size of the business and the sector that they operate in dictates the software requirements of clients. For example, one accountant commented that one of the most prominent off-the-shelf software packages was not considered to be suited to retail businesses.

"I look at the software needs that they have, I look at how big they are and what they do because there isn't one package that fits all."

Accountant, 10 to 49 employees, Member of a professional body

- 4.4 In a handful of cases agents said that they recommended that their clients used the same software package as they used. However, the clients of these agents did not always follow their recommendations. Instead, they tended to opt for software packages that they had heard of elsewhere.

"We tend to recommend [a software package that we use] but they tend not always to take us up on our recommendation. We find [the software package] extremely easy, flexible and useful but they tend to go for [other software packages] because they have heard of them"

Tax consultant, 10 to 49 employees, Member of a professional body

- 4.5 In addition to using digital technology to prepare tax returns, nearly all agents made digital submissions to HMRC. Typically, submissions of tax returns were made as a combination of direct exports from accounting software and uploads to the Government Gateway. As with the types of software used to prepare tax returns, there was no consensus among agents as to which types of returns were submitted via accounting software packages versus which types of were submitted through the Government Gateway.

"For Self-Assessment Tax and VAT returns I use the [Government Gateway] and I file online for CT using [software package]."

Bookkeeper, Sole trader, Member of a professional body

"In terms of getting in touch with the revenue, I personally use something called [software package] ... they cover corporation tax, personal tax... I use that pretty much for all interaction"

with the revenue apart from payroll, where I use [a second software package]. As it happens, it's all a bit of a mess as you can see, VAT comes directly from [a third software package]."

Accountant, 1 to 9 employees, Member of a professional body

- 4.6 When discussing their digital engagement in terms of tax, some agents spontaneously mentioned the virtues of using accounting software. These agents said that accounting software made the preparation and submission of tax returns easier and quicker.

"You don't have to print the returns out, don't have to go to the post and when you file online there is no delay, it is instant."

Accountant, Sole trader, Member of a professional body

"It's a lot more effective and efficient to do it that way... you're just pressing a button as opposed to running off reams of paper, preparing a letter, and sending it off."

Accountant, 1 to 9 employees, Member of a professional body

- 4.7 A few agents mentioned that they would like to be able to do some tasks digitally that they were currently unable to do. This included being able to digitally submit the form necessary to be authorized as a client's agent (form 64-8) and being able to submit SA returns for partnerships online.

"I don't know why HMRC can't digitalize [form 64-8]. Why does it have to be a stupid paper copy? Why can't I give a code to a client who can access something [online] and say 'yes I am authorizing it'"

Bookkeeper, Sole trader, Member of a professional body

"I have a client with SA, but it is a partnership and that is the sort of thing that can't be filed online ... we prefer electronic to paper but there are restrictions like those"

Tax consultant, 1 to 9 employees, Member of a professional body

- 4.8 Despite most agents being engaged with the use of digital technology in their work, some agents did not use accounting software and a few did not make any digital submissions. As demonstrated in HMRC's Tax Agent Segmentation Research, agents with a low level of digital engagement with digital services form a minority of the agent population. Only 11% of the population were unconfident or unwilling to use HMRC digital services. These agents tended to have an annual turnover below £50,000 and were typically aged over 65⁸.
- 4.9 Less digitally engaged agents did not use digital technology to prepare or submit tax returns primarily because they lacked the necessary skills to do so. Most of these agents had little experience in using digital technology and so felt more comfortable preparing tax returns manually and submitting them to HMRC in paper.

"To tell you the truth, I find it much easier and quicker to do the paper return than digitally because the amount of information they ask for digitally is far more... On a paper return, I

⁸ [Tax agent Segmentation Research – exploring agent's digital needs and attitudes \(HMRC, 2014\)](#)

mean, it could take me five, ten minutes to do ... doing it digitally, it could take me twice as long."

Tax consultant, Sole trader, Not a member of a professional body

"It is quite a generational thing... I don't think making tax digital will be an issue or is an issue for the young, because it's in their blood. When you come to the likes of us... I think we will always be somewhat reluctant"

Accountant, Member of a professional body

- 4.10 The agents that were less digitally engaged were typically older agents that had been practising for a long time and were in the process of winding down their business. Many of them considered themselves to be semi-retired and practised as an agent for a small number of clients that were of a similar demographic. These agents showed little interest in beginning to do tasks digitally.

The digital engagement of clients

- 4.11 Most agents reported that the digital engagement of their clients varied, having both clients that used digital technology for record keeping and clients that did not use digital technology at all.
- 4.12 Most clients did not use accounting software or apps, but did keep digital records in the form of spreadsheets (e.g. Excel) and then shared them with their agent via email, storage devices (e.g. USB memory sticks) or file transfer platforms (e.g. Dropbox). In these instances, agents inputted the information that was provided to them into their own software to prepare the relevant tax returns.

"Rather than the client using software, we are doing it in the software. They either give it on a spreadsheet or primary records and it is here where we have it on software."

Tax consultant, 1 to 9 employees, Member of a professional body

- 4.13 Some agents reported that a small proportion of their client base were more engaged with digital technology with regards to record keeping and so used accounting software on computers and accounting apps on mobile phones. The use of accounting software and apps was most common amongst clients that were more experienced and skilled in using digital technology in general. These clients were typically younger business owners. It was also more common in larger businesses with their own dedicated finance personnel.
- 4.14 Amongst agents that had clients that used accounting software, some considered it to be advantageous as it granted them greater access to their client's tax information (i.e. by remotely accessing the software) and meant that there was less time needed for them to organise information. However, others felt that there were challenges associated with clients using software. Some clients made mistakes when inputting data into software, requiring the agent to spend time correcting the information. Agents also said that there were sometimes compatibility issues between the agent's software and the client's software if different packages were used. For one agent this meant that they sometimes had to manually input information into their software as the information in the client's software could not be digitally transferred.

"I generally find it more difficult when the client uses their own software, because often they don't really understand what they're doing and we have to reinput it or redo it on our software"

Tax consultant, 1 to 9 employees, Member of a professional body

"There is always a danger the client is not a bookkeeper and don't always get things right so you spend more time unpicking stuff they have done wrong"

Tax consultant, 10 to 49 employees, Member of a professional body

- 4.15 Although the majority of agents' clients used digital technology for record keeping, nearly all agents reported having at least a few clients that did not. Where clients did not keep digital records, agents mentioned that it was a challenge to obtain quality, timely information. These clients typically provided tax information to agents in paper format, generally in the form of accounting books. However, many agents also reported having clients that delivered disorganised collections of receipts, invoices and bank statements. Agents said that disorganised records created a burden for them as they were required to spend more time organising and interpreting the information. A few agents also mentioned that there was often information (e.g. receipts or invoices) missing when records were provided in this way.

"Most of the self-assessment ones I call the 'proverbial shoebox' ... once a year a bag turns up with a whole load of crumpled receipts"

Bookkeeper, Sole trader, Member of a professional body

"The nature of this type of practise being where we are, we have a lot of local clients and they just like to drive in, drop off their stuff, and drive off again."

Accountant, 1 to 9 employees, Member of a professional body

- 4.16 Agents attributed the lack of digital record keeping amongst some of their clients to a variety of factors. Some said their clients did not possess the necessary digital skills, some said their clients were not interested in keeping their own records and would rather focus on other aspects of running their business, and some said their clients lacked an understanding of tax and would rather it be looked after by an expert.

"Most of my clients don't even own a computer or want to do anything with a computer!"

Accountant, 1-9 employees, Member of a professional body

"[Some clients] aren't particularly interested in doing that side of the business and want to get out and do what their business is and don't want to deal with the paperwork."

Tax consultant, 10 to 49 employees, Member of a professional body

Access to clients' tax information

- 4.17 The digital engagement of agents and clients had an influence on the access agents had to client tax information.
- 4.18 Where clients used accounting software for their record keeping, most agents accessed the data remotely to inform their preparation of tax returns. However, the extent of access varied.

In a few cases agents had continuous live access to client tax information. In other cases, agents reported only having access to software for a set period.

“Generally unlimited [access]. They will give me access when I ask for it and I have two or three where I can see them online in The Cloud.”

Accountant, Sole trader, Member of a professional body

“We don't normally have access to clients' software. We are occasionally able to access units at clients' premises remotely, and look at their software.”

Tax consultant, 1 to 9 employees, Member of a professional body

- 4.19 Some agents were not able to remotely access the software used by their clients because the software was not cloud-based. In such cases agents were usually provided with reports and spreadsheets exported from the software. In a few cases, agents were only able to access the information stored on the software by visiting the business in person.

“At the moment cloud software isn't prevalent among the clients. It tends to be: I go see them, I look at the software, I take back up copies if I need it and then I use it on own agent copy of that software”

Accountant, Sole trader, Member of a professional body

“I have perhaps half a dozen or so that use [software package] or a similar accounting software. They would let me have the information as print-outs from that.”

Accountant, Sole trader, Member of a professional body

- 4.20 Where clients did not use software and instead kept records in digital spreadsheets or paper, agents only had access to the tax information provided to them by their clients.
- 4.21 Aside from information used to prepare tax returns, most agents had access to retrospective tax information on clients through the Government Gateway. This channel provided agents with access to tax information relating to the taxes they worked on for the client. This was determined by the taxes the agent had been authorised to see by clients (through the submission of form 64-8).
- 4.22 Some agents did not have access to their client's tax information through the Government Gateway. These agents were typically sole trader tax consultants. No accountants reported not having access to their client's tax information through the Government Gateway, though a few bookkeepers did. Agents that did not have access because it was not required for the services they provided, and could obtain it directly from the client or their accountant if needed. A few bookkeepers mentioned that clients gave them their log-in details if information was needed.

“Just what they give us. I mean, we don't, for example, set up logins and try and have rights of access to their own tax dashboard or anything like that. We're very, kind of, issues-focused so we're not routinely looking at their day-to-day.”

Tax consultant, 1 to 9 employees, Member of a professional body

5 Awareness and understanding of MTDfB

5.1 This chapter describes the level of awareness of MTDfB among agents and explains what they knew about the programme. Fieldwork took place between 21st March and July 19th 2017.

Awareness of MTDfB

5.2 Most agents were aware of Making Tax Digital for Business before being contacted in relation to this research. They had heard of the MTDfB through a number of channels. These included:

- Communications from HMRC (i.e. emails and Rich Site Summary feeds);
- Budget 2015;
- Trade websites (e.g. Accounting Web);
- Press coverage;
- Trade press;
- Seminars (organised by HMRC and professional membership bodies); and
- CPD events.

Understanding of MTDfB

5.3 Most understood the general premise of MTDfB and the key principles. For example, the need for digital record keeping, the introduction of a quarterly updating cycle and the requirement for submissions to be made through software. Accountants who were members of a professional body tended to have a greater understanding of what MTDfB will entail. This group of agents were more likely to be aware of when it is being introduced, the income threshold, and the MTDfB pilot scheme.

5.4 However, the majority did not have a detailed understanding of the programme; they were unaware of the timeframes, the eligibility criteria and how it would work in practice. Bookkeepers who were not members of a professional body had a lower level of understanding than other groups of agents. Some agents attributed their lack of detailed understanding of the programme to a lack of information from HMRC.

5.5 As a consequence of many agents not having a detailed understanding of MTDfB, such as being unaware of the software packages that will be compatible and the proposed penalty regime, most had not yet raised the topic with clients and those that had, had typically only explained the basic overview of the programme. A couple of agents had explained to clients the need to keep records up-to-date and in digital format. However, others did not feel as though they had enough understanding of the programme to discuss the preparation for compliance.

"I don't think it is very good to say anything to clients yet when things are either changing or haven't even been decided."

Bookkeeper, 1-9 employees, Member of a professional body

- 5.6 Some agents did not understand why HMRC would implement MTDfB and questioned the advantages of the programme. A few agents were fairly cynical and thought HMRC were doing it to obtain money more regularly (if they have to pay tax quarterly) and to cut staff numbers. However, others recognised potential benefits of MTDfB which are explained in paragraph 6.13 below.

6 Agents' attitudes to MTDfB

Scale of opportunity presented by MTDfB

- 6.1 There were three distinct groups of agents in terms of the scale of opportunity presented by MTDfB:
- Agents that did not think MTDfB presented any opportunities;
 - Agents that thought MTDfB presented some opportunities; and
 - Agents that thought MTDfB presented a lot of opportunities.
- 6.2 Agents were more likely to think that MTDfB presented them with opportunities if they were members of professional bodies, were already engaged with using digital technology and if they understood MTDfB and the rationale behind it.
- 6.3 The perceived opportunities presented by MTDfB were broadly the same amongst agents that envisaged some opportunities and those that envisaged a lot of opportunities. The difference between the two groups lay in the perceived challenges of MTDfB; the former thought that a similar number of challenges would accompany opportunities while the latter thought that there would be few or no challenges. Figure 6.1 summarises the defining characteristics of the agents in each of these groups and the opportunities they thought MTDfB presented. The perceived opportunities of MTDfB are explored in this chapter and the perceived challenges of MTDfB are covered in Chapter 7.

MTDfB presents a lot of opportunities

- 6.4 A few agents thought that MTDfB presented them with a lot of potential opportunities and only a handful of challenges or in some cases no challenges at all. These agents were more likely to be accountants than bookkeepers or tax consultants and were all members of professional bodies.
- 6.5 The client base of these agents typically had a higher level of digital engagement. Most of these agents' clients provided tax information digitally and some used their own accounting software.
- 6.6 Aside from the digital engagement of their client base, these agents were typically more digitally engaged themselves than agents in the other two groups. These agents generally used a variety of different software packages and were strong advocates of the benefits of accounting software.
- 6.7 These agents generally had a better understanding of MTDfB and were aware of the details of MTDfB (i.e. the timetable and eligibility criteria) and understood how the proposals would translate to reality.

MTDfB presents some opportunities

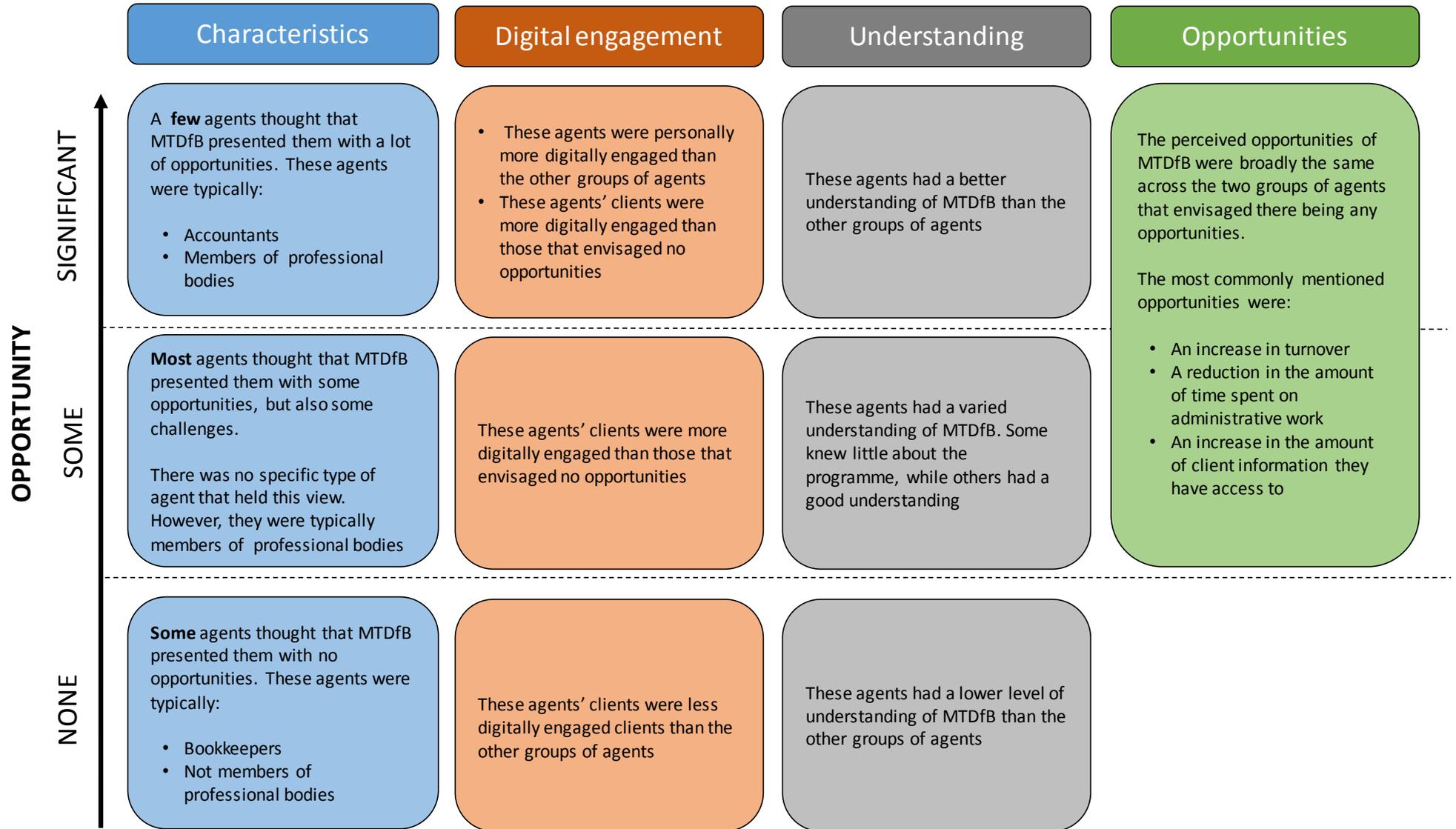
- 6.8 Most agents believed that MTDfB would present their firm with some opportunities, but also thought that the programme would present a number of challenges.
- 6.9 There was no specific type of agent that held this view. Accountants, bookkeepers and tax consultants were equally likely to feature within this group.
- 6.10 The agents were typically members of professional bodies and, compared to agents that perceived there to be no opportunities, had a more digitally engaged client base.
- 6.11 Most of these agent's clients already provided their tax information digitally (e.g. via email) and were much more likely to use accounting software than agents that perceived there to be no opportunities of MTDfB.
- 6.12 Understanding of MTDfB varied among these agents with some having a low level of understanding of the programme and others having a good understanding. These agents were aware of the MTDfB timetable, the eligibility criteria and how it would work in practice.
- 6.13 There was a desire among agents for HMRC to provide further information so they can effectively prepare for the changes. At present, there appears to be a mix in terms of support for MTDfB.

MTDfB presents no opportunities

- 6.14 Some agents thought that MTDfB presented them with no opportunities. Instead, these agents held the opinion that MTDfB would only bring about challenges.
- 6.15 Although this group included a range of the different types of agents, such as accountants, bookkeepers and tax consultants, bookkeepers were the most prominent.
- 6.16 These agents were typically not members of professional bodies and tended to work for clients with a low level of digital engagement. Most of these agents' clients provided tax information in paper form and very few used accounting software to manage their accounts. Therefore, agents anticipated that MTDfB would be a steep transition for their clients. Moreover, agents highlighted that it will be a struggle for them to obtain the information from their clients on a quarterly basis, with some having highlighted it is currently difficult to obtain annually.

- 6.17 These agents often had a low level of understanding of MTDfB. They typically understood the general principle of the programme and were aware of the key features (i.e. quarterly updates), but were unaware of the timeframes, the eligibility criteria and how it would work in practice.

Figure 6.1 Agent typologies by opportunities presented by MTDfB



6.18 The main opportunities mentioned by agents included:

- Clients relying more on agents to undertake their work due to the requirement of quarterly reporting. This could result in more hours spent by the agent providing services to their clients and therefore potentially result in increased revenue;
- A reduction in the amount of time spent on administrative work; and
- An increase in the amount of client information they have access to.

Types of opportunities presented by MTDfB

6.19 The most commonly mentioned opportunity of MTDfB was an increase in workload because of the introduction of a quarterly updating cycle. It was envisaged that agents would have to do more work on behalf of clients because of this quarterly reporting cycle. Due to this additional work, agents' fees could increase.

6.20 Similarly, some agents believed that the quarterly updating cycle could cause an increase in their number of clients which would result in increased revenue for agents. These agents thought that businesses that had previously looked after their own record keeping would require an agent in order to meet the quarterly deadlines. It was thought that businesses would struggle with the perceived increased workload.

"[The quarterly updating is] wonderful news for accountants... most businesses will find that quite onerous so more and more people will turn to accountants to help with their record keeping."

Accountant, 1 to 9 employees, Member of a professional body

"There will be more work... The more complicated they make it, the more businesses will need to go and pay out some money to people like us to do it."

Tax consultant, 1 to 9 employees, Member of a professional body

6.21 Other agents said that there could be an increase in the volume of work, and therefore revenue, because of the requirement for businesses to keep digital records. Agents believed that this element of MTDfB would necessitate a greater need for agents because many businesses would not want to take on this role. It was thought that this was due to a desire to focus on running their business, a lack of an understanding of tax among some businesses and because some do not possess the necessary skills or confidence in using digital technology.

"I think there could well be a surge, especially with people who are not comfortable dealing with computers. I would say people of a certain age will struggle."

Tax consultant, Sole trader, Not a member of a professional body

"The clients say 'you are the bookkeeper/accountant, you deal with it'; they are builders, podiatrists, beauticians or whatever, they don't want to deal with paperwork."

Bookkeeper, Sole trader, Not a member of a professional body

6.22 Another prominent potential opportunity was a reduction in the amount of agent time spent on administrative work. Some agents felt that greater use of digital technology would mean that the information provided by clients would be of a higher quality and more organised and so agents would not need to devote as much time to checking and duplicating information.

6.23 It was also felt that the amount of administrative work undertaken would be reduced by MTDfB because accounting software would automate a number of tasks needed in the preparation of tax returns. Some agents commented that this time saving would enable them to spend more time on what they considered to be more interesting and rewarding aspects of their job, such as consultancy.

"[Software is] error free, relatively. It's a form of artificial intelligence. The system learns to read an invoice which saves time."

Accountant, 1 to 9 employees, Member of a professional body

6.24 Some agents envisaged that MTDfB would increase the amount of client information that they could access. It was felt that this could occur because of the need for clients to keep digital records, and the subsequent need to use software to do so. Increased access to information was considered an opportunity because it would make it easier to prepare annual tax returns and find the relevant information to answer queries.

"If we get set up properly and can access clients' bank accounts then our services will improve - we will get more information more quickly. The improvement won't be on taxation but on business advice as will we be getting information quarterly."

Accountant, 10 to 49 employees, Member of a professional body

7 Challenges presented by MTDfB

7.1 This chapter describes the types of challenges that agents thought MTDfB would present them and their clients. The main challenges mentioned by agents included:

- An increase in workload; and
- An increase in costs.

Challenges presented by MTDfB for agents

7.2 The most commonly perceived challenge of MTDfB was an increase in workload, which was also perceived as an opportunity by some. Agents believed they would need to increase the number of hours spent processing and submitting quarterly updates which would result in an increase in revenue as agents' fees are commensurate to the hours worked. Many agents thought that with a quarterly updating cycle in place they would experience a four-fold increase in their volume of work because they assumed they would have to conduct the amount of work every three months they had previously done for clients on an annual basis⁹. Rather than associating this effect of MTDfB with an increase in revenue, these agents only envisaged negative consequences.

"Just a lot more to do really, a lot more work ... much more admin and they would have to send me the information four times a year ... a large proportion don't even do it once a year, fail to submit tax returns annually ... it will be more expensive for me because it will take more time and work ... I will have to increase the fee."

Tax consultant, Sole trader, Not a member of a professional body

7.3 In addition, some agents thought that their workload would increase as a consequence of the requirement for digital record keeping. These agents envisaged that some of their clients would not keep digital records for the same reasons they did not engage with digital technology before MTDfB (see Chapter 4). Some agents' clients did not wish to be involved in their own record keeping because of a lack of digital engagement, a lack of an understanding of the tax system and because they would prefer to focus on running the business.

"Small businesses just don't have the time to do these things and we are going to have to get them trained up in a very simple fashion so we can pull off the information for submissions – the issues will be cost and training."

Accountant and auditor, 10-49 employees, Member of a professional body

7.4 The likelihood for MTDfB increasing agent workload was perceived by many agents to be a challenge because of two factors: increased costs and a lack of capacity within the firm.

7.5 Agents under the assumption that their workload would increase believed there would be a subsequent increase in their costs from having to devote more time to client tax affairs. Whilst

⁹ Fieldwork took place between 21st March and July 19th 2017. Please see paragraph 2.7 which explains that the announcement in July 2017 stated that only those businesses over the VAT threshold will be mandated in 2019.

some agents associated this change with an increase in turnover, some agents thought that such an increase in their fees would likely cause them to lose clients.

"Stands to reason that if they are relying on us to do the work and get the information in four times a year as opposed to once a year, it is going to take more of our time and cost them [clients] more money."

Accountant, 1-9 employees, Member of a professional body

"I will have to do more work and inevitably most of my clients aren't going to pay for that extra work."

Bookkeeper, Sole trader, Member of a professional body

- 7.6 Some agents did not think they had enough capacity to take on the additional work they expected from the introduction of MTDfB. These agents thought that they would either have to hire more staff or reduce the size of their client base.

"We don't have enough staff to be able to process things as often, so that's an additional cost, an additional burden on us. We've got to decide whether we want to do that or just say we're not going to help, we haven't made that decision yet."

Tax consultant, 1-9 employees, Member of a professional body

- 7.7 Another prominent challenge perceived by agents was the cost of software. Many agents thought they would have to invest in new software or pay for updates in order to be compatible with the HMRC system. Furthermore, some agents also said that they would have to invest money into training themselves and other members of staff to ensure that they understood how to use the software.

"Contrary to the £280 [HMRC report] it is going to cost businesses to go digital. That is absolute rubbish; it is going to cost them a fortune in terms of time and software."

Accountant, 1-9 employees, Member of a professional body

- 7.8 A minority of agents felt that the changes associated with MTDfB would make their role obsolete. It was felt that business clients could be motivated to undertake record keeping and submissions themselves due to the potential increase in agent fees.

"Talking about that, I read recently about accountants, that they're not going to require accountants anymore because of this digital that you're talking about, because obviously, you know, these clients can just feed it all themselves."

Bookkeeper, Sole Trade, Not a member of a professional body

- 7.9 Among the less digitally engaged agents, the requirement under MTDfB to use software to record and submit client information was a fundamental challenge. These agents had little experience in engaging with digital technology and expressed little interest in starting. In many of these cases, agents were semi-retired or in the process of winding down their firm and said that they planned to stop practising when MTDfB was introduced.

I am going to pack in shortly and if they want to find out more they are going to have to go to an accountancy firm. I am just happy doing what I am doing at the moment but once that finishes I

shall pass it on as I don't want to go through all of this – I'm too old. If I was younger, I would do it but this is just a hobby.

Bookkeeper, Sole trader, Not a member of a professional body

Challenges presented by MTDfB for clients

- 7.10 In addition to the challenges they thought that they would personally face, agents also discussed the challenges that they thought MTDfB would present their clients. These challenges typically related to the cost burden of complying with MTDfB.

"I think the government totally underestimates the task of owning and running a small business, generating sales, getting cash, invoicing, bookkeeping and regulation... [MTDfB] is just another huge burden."

Accountant, 1-9 employees, Member of a professional body

- 7.11 Some agents said that the likely need for agents to increase their fees to cover increased costs would be a challenge for businesses that opt to use an agent for all record keeping and submissions. Meanwhile, it was thought that clients that opt to use their own software would be challenged by the cost of investing in new software, updates and training.

"That is going to be a whole new training programme for them and they are not accounting people so that could be a problem."

Bookkeeper, 1-9 employees, Member of a professional body

"If it means all clients having to submit quarterly, it's going to be a real pain, particularly for the smaller clients who don't keep digital records. They can keep paper records and we have to collect all their information every quarter. That's not going to be worthwhile for the client... because the fees would be extortionate."

Tax consultant, Sole trader, Not a member of a professional body

- 7.12 Some agents also felt that clients would be challenged by the need to have their relevant tax information ready for quarterly updating. Most of these agents drew a comparison to previous client experiences: many businesses had found it difficult to get organised information to agents on an annual basis. Therefore, it was assumed that clients would struggle to get information to agents four times a year or collate it themselves in-house, however, some did recognise that it would result in clients needing to be more organised and up-to-date.

"They will have to keep proper records and be more disciplined and I doubt they have the time or inclination to do this."

Accountant, 10-49 employees, Member of a professional body

"With some clients it will be fine but with others it will be terrible; some of them will miss deadlines. Some of them who come with a carrier bag on 29th January aren't going to come and see me four times a year"

Bookkeeper, Sole trader, Member of a professional body

"How we are going to be able to get that information out of them sometimes, I don't know...we'll forever be chasing everybody."

Accountant, 1-9 employees, Member of a professional body

8 Information and support

8.1 This chapter explains the types of information and support that agents thought HMRC needed to provide agents and clients to ease the transition to MTDfB.

Information about MTDfB

8.2 There was a consensus amongst agents that HMRC needed to provide them with more information about MTDfB.

8.3 Many agents felt that they needed more detailed information about how MTDfB will work in practice so that they could adequately prepare for the transition. Specifically, they would like to know:

- The intended format of the digital returns;
- Submission dates;
- The amount of access, if any, agents will be permitted to have to the digital accounts of clients;
- The software packages that will be compatible;
- The proposed penalty regime; and
- The perceived benefits of MTDfB.

8.4 Furthermore, some agents said that they required more information about MTDfB because they expected that their clients would rely upon them to explain the programme and guide them through the transition. These agents stressed that it would likely be their responsibility to communicate information about the programme to clients because many will not want to deal with HMRC directly.

"I feel I have very little information and I have looked around a lot on the internet ... The client needs to be persuaded as I am the face of the revenue. If [HMRC] haven't told me why they think this is a good idea then I can't tell my clients."

Bookkeeper, 1-9 employees, Member of a professional body

"More [information] about the process and how is it going to help the business people... at the moment, it just seems that it's convenient for HMRC, that is how this is coming across, just to make life easier for them, not for the rest of us."

Bookkeeper, Sole trader, Member of a professional body

8.5 Some agents said that they wanted to receive information from HMRC regarding MTDfB through webinars. A few mentioned that it would be helpful if webinars were provided as videos that could be accessed when convenient rather than a live video stream. Other agents suggested that it would be helpful to receive a slide deck or short report on MTDfB to explain the requirements.

"Need to know what we need to do. Useful to receive a paper on what we need to do or even a webinar that can link to look at any time almost like YouTube."

Bookkeeper, 1-9 employees, Member of a professional body

"A simple four side slide deck from HMRC ... this is when we are going to do it, this what we recommend you do, these are the tools we recommend you use, here an example of how it works."

Tax consultant, 10-49 employees, Not a member of a professional body

- 8.6 Looking ahead to when MTDfB comes into play, some said that HMRC must ensure that the agent helpline is well-resourced so that agents can quickly have queries answered and issues resolved. Some agents mentioned they found communicating with HMRC a challenging aspect of working with business clients. These agents said that when encountering an issue it took a long time to reach someone on the HMRC helplines, and in a few cases agents reported that the information provided on the helpline was not useful.

"More investment needs to be made in to people that work at HMRC, they are under resourced and stretched."

Tax consultant, 10-49 employees, Not a member of a professional body

"It's virtually impossible, if somebody's got a query, for them to get through to the Revenue office. It takes virtually hours to get a response. It's even difficult for us because we've got a dedicated agents' line with the revenue."

Tax consultant, Sole trader, Not a member of a professional body

Support for the transition to MTDfB

- 8.7 Many agents thought that MTDfB would be a challenge for their firm because they envisaged that to comply with the changes they would have to invest money in new software or pay to update their existing software. To help agents with this perceived challenge, some agents suggested that it would be useful if HMRC provided a standard software package to agents free of charge.

"If they provided something that was free, maybe not elegant but it worked and you didn't need to buy commercial software... [that would be] a good thing. "

Tax consultant, 10-49 employees, Not a member of a professional body

"Basic Tools with Inland Revenue ... if they were to do something like that, that might assist me a great deal instead of me having to learn from potentially four different bits of software modules"

Bookkeeper, Sole trader, Not a member of a professional body

- 8.8 Some agents felt that their clients would be challenged by MTDfB because of the need for them to organise and share their information with agents every three months. Agents felt that this change would be a significant increase in the amount of work clients have to put into their tax affairs. To help clients with this perceived challenge some agents suggested that HMRC should implement a "soft launch" of the programme to allow a period for businesses to get

used to the requirements before penalties and fines are enforced. A couple of agents highlighted that they would like to be involved in the pilot in order to gain first-hand experience of how MTDfB will work in practice.

9 The Single Financial Account

- 9.1 This chapter details agents' initial impressions of the concept of a Single Financial Account (SFA). The SFA aims to provide taxpayers with an integrated view of their tax liabilities and entitlements as well as their net liability position in one place. As part of the wider Making Tax Digital vision, HMRC plans to simplify and automate certain processes (including establishing overall net liability, using repayments to settle an existing debt across two or more taxes, and fluid handling of certain payments) so that individuals and businesses can view all of their tax affairs together in one place¹⁰.
- 9.2 At the time of the research the SFA was still in development, so discussion was limited to thought on the concept and hypothetical scenarios defined below.

Initial impressions of the Single Financial Account

- 9.3 Many agents responded positively to the concept of a SFA, believing that the ability to see all tax information in one place would benefit both agents and clients.
- 9.4 For agents, it was felt that the SFA would allow them to have a better understanding of the client's overall tax situation and would save the agent time in finding this out from multiple sources. These agents typically envisaged that the introduction of the SFA would lead to an increased level of access to clients' information. Agents will more easily be able to see what clients owe.

"Can look at their digital account and do an analysis to determine how much is going to be forecasted for a payment, then at least a client can be made aware of it and save for when the tax bill comes and it is not a shock."

Bookkeeper, 1-9 employees, Member of a professional body

"If there was something available online and we had permission from our clients to access specific parts that we may or may not be dealing with, then that would be useful. Then we could just go online and not have to call and just get information we want and just get on with it."

Accountant, not a member of a professional body

- 9.5 Having all their tax affairs together in one place was thought to be advantageous for clients as well as agents because it would enable them to find out information themselves and have a better understanding of their tax situation. However, a few agents commented that their clients would probably not use the SFA because they did not want to deal with their own tax affairs. It was emphasized that these businesses rely on agents to deal with these matters on their behalf because of a lack of interest, understanding of the tax system, or time.

¹⁰ [Making Tax Digital: Voluntary pay as you go \(August, 2016\)](https://www.gov.uk/government/consultations/making-tax-digital-voluntary-pay-as-you-go)
<https://www.gov.uk/government/consultations/making-tax-digital-voluntary-pay-as-you-go>

"It sounds marvellous but I have never come across any business that has been complaining about not being able to see all of their tax affairs in one place!"

Tax consultant, 1-9 employees, Member of a professional body

"That has the propensity to confuse my client. On one hand I can see the simplicity of that but my client – most will have no interest."

Bookkeeper, Sole trader, Not a member of a professional body

- 9.6 A couple of agents queried whether personal and business liabilities would be kept separate on the SFA. They held the opinion that they need to be, otherwise it could cause difficulties for self-employed individuals.

Setting off credits against debts¹¹

- 9.7 Agents were presented with the following hypothetical scenario:

John works for an Accountancy firm. His client has a tax debt with HMRC that is due to be paid but they are also due a repayment in another tax. HMRC informs John's client that their repayment is to be used to clear all or part of the debt (depending on the value of the debt and repayment). They may not need to do anything as the process is all handled entirely within HMRC; they can see the detail of what HMRC is doing through their digital account. John is able to see everything HMRC is doing in his software, provided his client has authorised him to see relevant aspects of their tax affairs.

- 9.8 Initial impressions of this scenario were mainly positive. Some stated it would simplify the process of credit repayment and so save agents time. Others reported it would result in greater transparency, meaning that agents and clients would have a better understanding of a client's tax situation. A couple believed it could improve the relationship between the agent and the client, as the agent will not need to chase payments to offset the debt.
- 9.9 Other potential advantages of the proposal mentioned by a minority of agents include greater access to information, reduction in administration, and faster resolution of issues.
- 9.10 Although most had a positive perception of the scenario, a few agents mentioned that HMRC involvement in setting off credits against debts could be problematic if there is a reason why the client had not paid. For example, a debt might not have been paid because the client disputed it. In such cases, agents thought that it was important that agents and clients retained authority about when a credit is used to offset a debt.

"I think it is good but I'm hoping HMRC does not have the right to just decide themselves and it is down to the taxpayer or the agent."

Bookkeeper, Sole trader, Member of a professional body

¹¹ HMRC already have the power under FA 08 to carry out set off, but this will become an automated process.

- 9.11 Several agents highlighted the potential disadvantage if HMRC makes a mistake or if there is an error with the system.
- 9.12 In order to make this scenario possible, a few agents emphasized the need for them to have authorisation from their clients. One agent also stated that a better agent helpline was needed in order to support the change.

Fluid handling of payments

- 9.13 Agents were presented with the following hypothetical scenario:

Sally runs a Bookkeeping business. She makes a payment on her client's behalf (voluntary, etc.) against one tax debt, however HMRC is aware of an older debt (or other debt) they are yet to pay and which is in their interest to pay first. HMRC informs Sally (subject to existing authorisation from her client) that it is to allocate the payment to the older debt first after taking into account various factors including any relevant legislation, interests and penalties. HMRC keeps Sally informed of the details through her software so that she can see what is happening and why; and advise her client accordingly.

- 9.14 Some agents viewed this scenario positively as they felt that the automatic allocation of payments could be beneficial to some clients as quicker resolution of debts would save them money.

"The liability is being killed sooner and not chasing the client to make the payment. From a personal perspective it is about time-management and definite advantage if client is not incurring interest and fine."

Accountant and auditor, Sole trader, Member of a professional body

- 9.15 However, as with the scenario of setting off credits against debts, some agents were concerned about the lack of agent control of payments, which in turn would put a strain on the relationship with their clients. It was thought that HMRC should not have final say over which debt is in a client's interest to pay because there is likely to be a reason why that debt has not been paid. For example, the debt may be disputed by the client.

"I don't think they should be able to do that. If there is an older debt that hasn't been paid there will be a reason for it."

Bookkeeper, Sole trader, Member of a professional body

- 9.16 A couple explained that this proposal could lead to confusion among both agents and clients. A minority again raised the issue of information being incorrect and security as potential drawbacks.
- 9.17 To make doing this possible, the agent will need authorisation from the client, access to the information, and HMRC will need to ensure that the database is up-to-date.

10 Conclusion

How will agents engage with their clients in relation to MTDfB?

- 10.1 Most agents understood the general premise of MTDfB and key features of the programme. However, many agents did not have a detailed understanding of MTDfB; they were unaware of the timeframes, the eligibility criteria and were unable to comprehend how it would work in practice. For example, many had interpreted the introduction of a quarterly updating cycle to be equivalent to submitting four sets of annual accounts.
- 10.2 As a consequence of most agents not having a good understanding of MTDfB, most agents had not yet raised the topic with clients. Some agents were keen for HMRC to raise awareness among businesses so that their clients know the changes are coming in. All agents, including those with greater awareness, would like HMRC to provide them with clear information on how MTDfB will work in practice so that they can explain the changes and support them through the transition their clients.
- 10.3 Some agents had a good understanding of HMRC's rationale behind introducing MTDfB and the main features of the programme (i.e. eligibility criteria). These agents were more likely to have a positive perspective of MTDfB, often mentioning more possible opportunities than challenges. Although these agents had a better understanding of MTDfB, they too mentioned that they wanted more information before they were able to engage clients. In particular, it was mentioned that they would like more information about the software requirements and how it would work.

How can HMRC engage and leverage agents to act as intermediaries of MTDfB?

- 10.4 Most agents do not intend to engage their clients with the concept of MTDfB until they are provided with more information from HMRC. This information will be critical in 'bringing agents on board' and ultimately engaging their own clients. A few agents highlighted the need for HMRC to explain the benefits of MTDfB in order for clients to understand why it is being introduced, which will ultimately result in them being more willing to comply.
- 10.5 Indeed, some agents commented that it was critical for them to be provided with more information about MTDfB because they anticipated that their clients would rely upon them to explain the programme and guide them through the transition. Specifically, agents wanted to know more about:
 - The intended format of the digital returns;
 - Submission dates;
 - The amount of access, if any, agents will be permitted to have to the digital accounts of clients;
 - The software packages that will be compatible;
 - The proposed penalty regime; and
 - The perceived benefits of MTDfB.

- 10.6 Agents would like HMRC to provide this information via webinars or a slide deck or short report that clearly states the requirements.

What do agents envisage the practicalities of MTDfB will involve?

- 10.7 Most agents thought that MTDfB presented them with a mixture of opportunities and challenges. One of the most commonly mentioned opportunity was a reduction in the amount of time spent on administrative tasks. It was felt that greater use of digital technology amongst clients would make the process of preparing tax returns more efficient because information provided would be of a higher quality and more easily accessible.
- 10.8 Agents also envisaged that on the one hand MTDfB could increase the workload of agents which might result in increased revenue for agents. On the other hand, they expected that MTDfB would constitute more work for them and they may not be able to pass on the additional costs to the clients and therefore may have to absorb this extra cost. The most prominent challenges were increased workload and increased costs.
- 10.9 Some agents thought that the introduction of a quarterly updating cycle could lead to more revenue due to it being perceived to mean a four-fold increase in workload. Further, some agents thought that their number of clients could increase as the need to keep digital records and quarterly submissions would cause businesses to be more inclined to employ an agent.
- 10.10 Although identified as a possible opportunity by some, the potential for increased workload was also perceived by others to be a challenge. These agents predicted that an increased workload brought about by MTDfB would not translate to higher turnover because they expected that their clients would be reluctant to pay higher fees.
- 10.11 Some agents thought that MTDfB would cause their business to incur higher costs because they thought they would have to invest in new software or pay for updates in order to make existing packages compatible. Furthermore, in order to cope with the envisaged increased in workload, some agents thought that they could have to hire more staff.

How was the concept of the SFA received?

- 10.12 Many agents responded positively to the concept of the SFA. It was felt that the ability to see all client tax information in one place would be beneficial for agents and the clients themselves as it would give both parties a better understanding of the business's overall tax position and would make it quicker and easier to access tax information when required. Currently, where clients used accounting software for their record keeping, most agents accessed the data remotely to inform their preparation of tax returns. However, the extent of access varied. In a few cases agents had continuous live access to client tax information. In other cases, agents reported only having access to software for a set period.
- 10.13 Though many agents were positive about the concept, some did not think it would be used by their clients and there were some concerns regarding the quality of decision making by HMRC (i.e. risk of mistakes) and the perceived 'lack of control' over the decision-making process.

What further support might be required by agents?

- 10.14 To help with the challenges perceived to be potentialities of MTDfB, some agents suggested that it would be useful if HMRC provided a standard software package to agents free of

charge. It was also suggested that HMRC should implement a “soft launch” of the programme to allow for a period where agents and clients get used to the requirements before penalties and fines are enforced.

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