

# The challenges of the tax function in 2021

How have the events of 2020 affected UK tax departments and what new challenges may they face in 2021?



Many tax professionals are currently working with extremely traditional and manual methods of VAT preparation. As we approach the second phase of Making Tax Digital, it offers an enormous opportunity for businesses to digitise their processes and improve tax preparation efficiency.

## Some of the main challenges facing tax functions are:

### Length of VAT preparations

**62%**

of tax specialists spend over 10 days a quarter preparing, checking and submitting their VAT

### Tax accuracy

**30%**

of tax professionals think their tax submissions are either 'moderately accurate' or 'not accurate at all'

### MTD phase 2 ambiguity

**50%**

of tax experts are either 'somewhat aware' or 'not at all aware' of MTD phase 2 requirements

## In this report ARKK want to gain the following insights:

- Remote working, financial instability and deadline adjustments are some of the affects brought about by the global pandemic. What impact has this had on UK tax functions?
- With businesses given an additional 12-month extension to the MTD soft launch period, how prepared are firms for MTD's new launch date?
- Given that the length of VAT submissions was relatively long and tax accuracy was lacking in our previous report, has there been an improvement in VAT processes from 2019 to 2020?

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# Introduction

Moving into the new decade, no one could have foreseen the events that would unfold. 2020 has seen drastic changes occur on a global scale, which has affected all aspects of a business, including the finance and tax department.

Brexit had already begun to alter the UK's tax landscape and the onset of the global pandemic has kicked this into overdrive. Making Tax Digital, HMRC's digital initiative to bring the tax administration right up to date, had an original soft launch period which was expected to end in April 2020. Due to COVID-19, this has now been postponed until April 2021 giving tax functions across the country an additional 12 months to prepare.

During July 2019 we created a report titled 'Why tax departments need to embrace the digital era' which surveyed over 400 individuals whose role had some level of involvement with their company's tax preparations.

We wanted to investigate organisations' tax processes, how long it took firms to submit their VAT returns and the accuracy of their submissions - the findings were incredibly insightful.

On average,

# 56%

of companies in 2019 spent over 10 days per quarter preparing, checking and submitting their VAT

Worryingly with the amount of time spent on VAT returns **1 in 4 businesses didn't believe their taxes were 'very accurate'**. The report summarised that tax technology is a solution that can not only help organisations reduce the amount of time spent on VAT returns but also improve accuracy and tax efficiency.

Over a year later with changes due to Brexit and the global pandemic, ARKK wanted to revisit the report's findings and compare it against an updated sample. We surveyed over 400 individuals who are involved with MTD within businesses generating annual revenue of £50 million or more. The key insights we wanted to uncover were:

- What impact has COVID-19 had on UK tax functions?
- How prepared are firms for MTD's new launch date?
- Have VAT processes improved since the previous report?

The results of the report are intriguing. VAT processes still appear to need improvement and many companies remain in the initial stages of MTD phase 2 preparation.



**Many companies thought they were finished with MTD last year when they changed to HMRC's new filing process, but the Digital Linking project (Phase 2) represents a much bigger and costlier challenge.**

**Richard Metcalfe, CEO of ARKK**

# The impact of COVID-19 on the tax function

On 23rd March 2020 the UK went into lockdown to curb the spread of coronavirus. Overnight, staff were told to work from home changing the everyday working environment.

Until 2020 most companies, and tax departments, had staff occasionally working from home for a day or two a week at the most. As entire companies are now working remotely has this caused any issues? We asked tax professionals what has been impacted most this year by COVID-19.

**The top five challenges can be categorised into remote working difficulties and resourcing:**

For teams that likely haven't worked remotely for extended periods, system access and team collaboration will be tough. The implementation of systems such as an end-to-end tax solution can massively improve remote system access, with many also offering cloud-based collaborative functionality built-in.

Resourcing during the pandemic was also stated as a major issue, both from a staffing and budgetary perspective. These two problems are likely heavily interlinked as budget reductions within departments, including tax, have led to staff having to be let go. The knock-on effect is that the same workload now has to be done with fewer people making staff resource an issue.

1

**Challenges working collaboratively remotely**

2

**Challenges accessing systems remotely**

3

**Staff resource within my team**

4

**Budget cuts to my department**

5

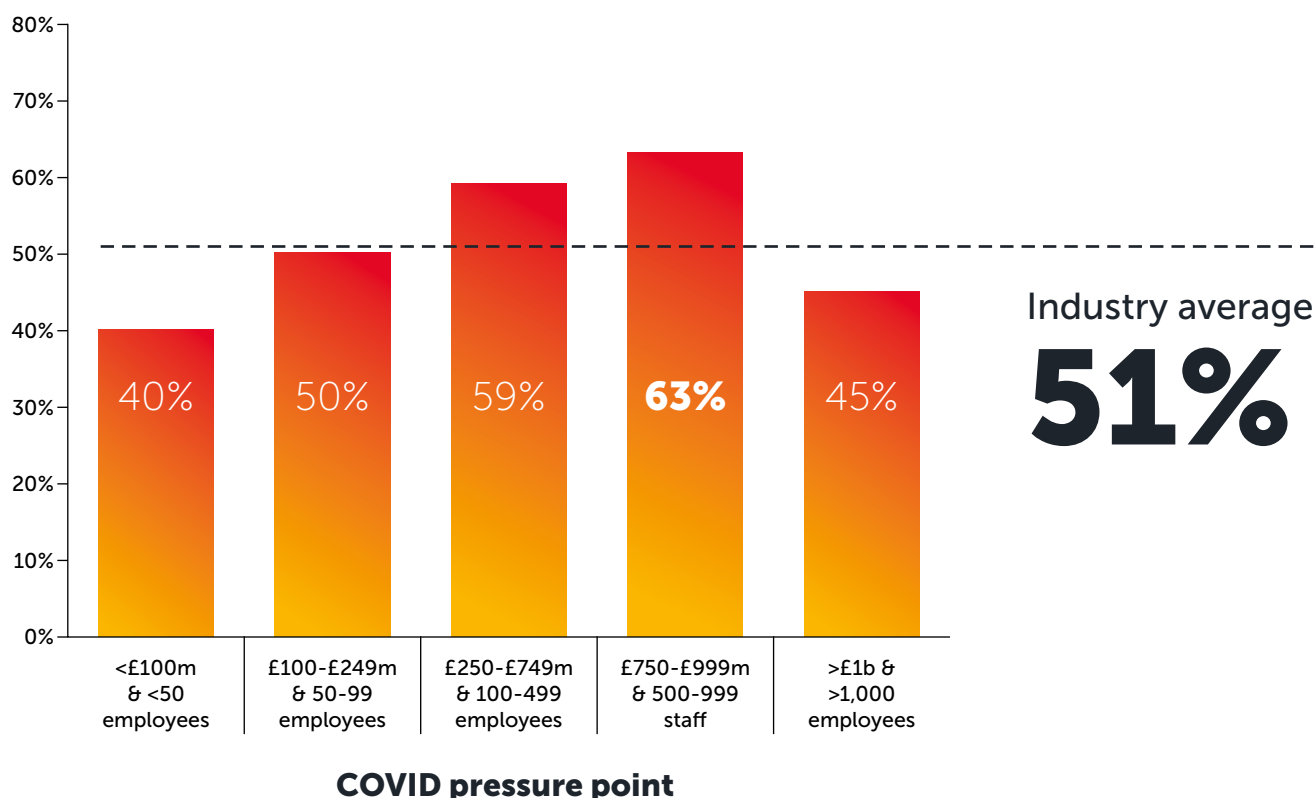
**Internal timeline changes to projects**

## The COVID pressure point

We wanted to specifically know if the size of finance and tax teams has changed due to COVID. Assessing company size, there appears to be a pressure point that the global pandemic has revealed which disproportionately affects companies of a particular size.

Of the smallest businesses we surveyed, 40% of SME's, companies with less than £100 million in annual turnover and fewer than 50 employees reported a team size reduction. 45% of the largest enterprises we surveyed, companies with over £1 billion in annual turnover and over 1,000 employees, had a reduction in team size.

The weak spot appears somewhere in the middle, what we're referring to as medium enterprises, organisations with annual revenue of between £750 - £999 million annually and between 500 - 999 staff. 63% of medium enterprises have reduced the finance or tax department's size due to the pandemic, 23% higher than the lowest segment. Medium enterprises are likely to have reasonably complex VAT processes, but small tax teams due to the company's scale. Decreased staff resource will put a large amount of additional pressure on the tax function.





# Are companies ready for MTD phase 2?

With only two days until the April 2020 soft launch period of Making Tax Digital was due to end, HMRC announced a delay until April 2021 for digital link implementation due to the global pandemic. With such little time until the extended deadline announcement, it can be assumed that most companies would be fully prepared for MTD phase 2. However, our results tell a different story.

Our survey revealed that 50% of tax specialists are completely aware of MTD phase 2 requirements for 2021, leaving the remaining half either 'somewhat aware' or 'not at all aware' which is concerning. Six months after the initial deadline, there still appears to be a level of ambiguity about businesses' digital linking obligations.



In our **2019** survey

# 45%

of tax professionals were either somewhat aware or completely unaware of MTD requirements beyond **2019**.

This number has **increased** to

# 54%

in our **2020** survey.



It's not all bad news, when asked how prepared companies are for MTD phase 2 requirements there were a variety of responses. Nearly 40% of tax professionals are fully prepared, either previously having internal VAT processes in place that are phase 2 compliant or having already sourced a solution and actively using it for their VAT returns.

10% haven't started searching for a solution yet, for some organisations there may be more immediate priorities, but they should start the search soon to ensure they are fully compliant before the April 2021 deadline. Another 22% are considering their options. Choosing a solution requires a lot of assessment from a variety of stakeholders and with the added layer of ambiguity regarding digital linking obligations, many companies may be considering their options until they have clarity.

**Almost 2 out of 5 tax professionals are fully prepared for MTD phase 2**

**1 in 10 tax experts haven't started looking for an MTD phase 2 solution yet**

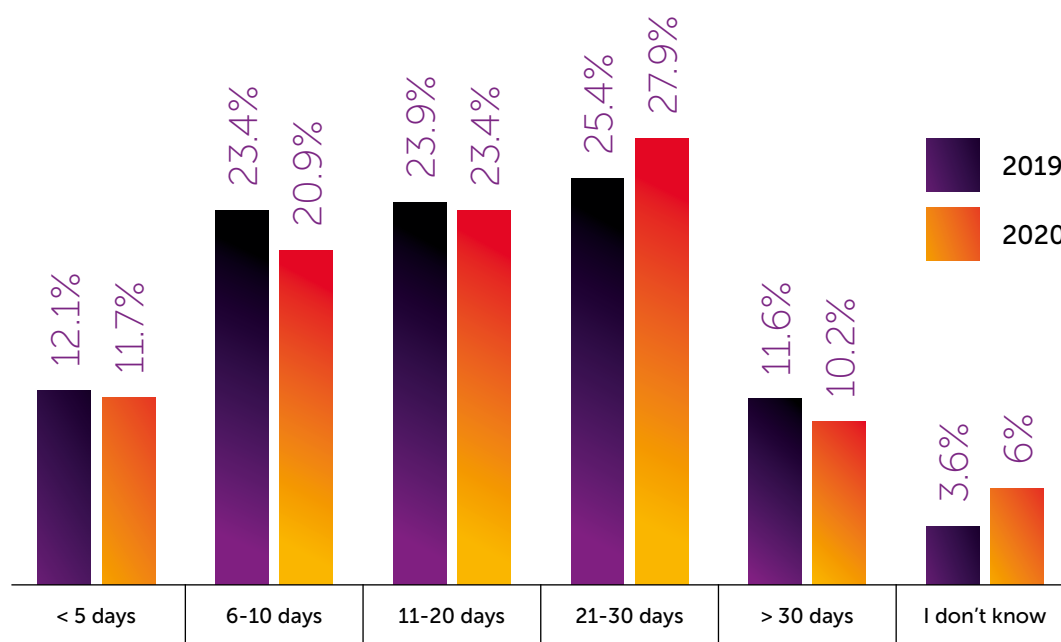
**Companies with annual revenue between £500 - £999 million were the most likely to not be aware of MTD phase 2 requirements**

As you can see, firms are at various stages in their MTD preparedness, however, 1 in 5 stated that they would have effectively missed the deadline by not being able to submit on time. This is a situation that no tax specialist wants to be in as missing the MTD deadline will not put a company in a favourable position with HMRC.

## The two-month void continues

One area that our previous report 'Why tax departments need to embrace the digital era' assessed was the amount of time it took businesses to compile and submit VAT returns. A staggering statistic was that 56% of respondents spend over 10 working days per quarter preparing, checking and submitting their VAT. Over a year since our previous report, have companies managed to reduce this time?

From the tax experts that we surveyed, 62% spend over 10 days per quarter preparing, checking and submitting their VAT - an increase of 6%. On the extreme end of the scale, there has been some improvement. Previously 12% said that it takes more than 30 days to compile and submit their VAT, our recent survey found that 10% now take more than 30 days to compile and submit their VAT returns. A modest decrease of 2% but a sign of progress.



**Companies' VAT submission speed - 2019 vs 2020**

The lack of change may initially seem unusual, however, when looking at how prepared firms are for MTD phase 2, almost two-thirds of companies are still deciding on a solution. As more organisations put solutions in place to meet the digital link obligation, we expect the time spent on VAT returns will reduce.

## What's important to tax professionals?

Our previous report uncovered that financial confidence was lacking across the board for businesses. No matter the size of the company, there was a lack of confidence in the accuracy of a company's VAT submissions which can lead to a multitude of issues.

As part of our recent survey, we wanted to know if confidence in VAT figures was still an issue or if tax accuracy still remained the top priority. The results were very comparable to our prior report.

In order of importance, the accuracy of tax submissions was still number one. Over half (57%) of tax specialists said that the accuracy of their submissions and 49% stated that reclaiming any overpaid VAT is 'very important'. It stands to reason that tax accuracy remains in the top position, the more accurate a firm's VAT returns are, the less chance of over or underpayment leading to corrections needing to be made later. Organisations and HMRC's ambitions are aligned here, both wanting to improve accuracy, and automation is a great way to achieve this.

1

**The accuracy of  
VAT submissions**

2

**Reclaiming any VAT  
overpayments**

3

**Avoiding penalties for  
late or incorrect filings**

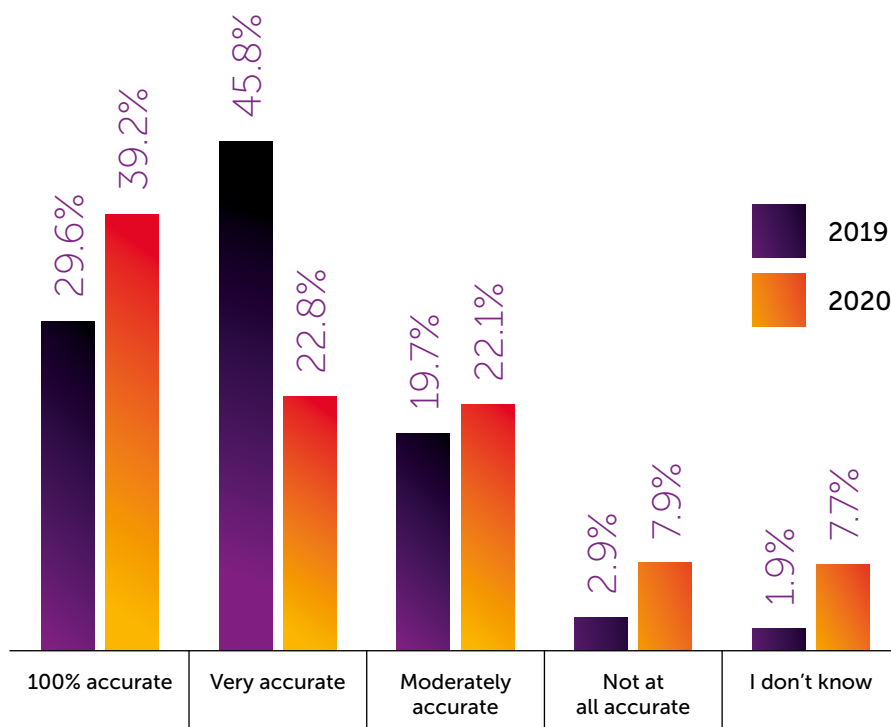
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**Reducing audit costs**

5

**Knowledge of upcoming  
regulatory changes**

Further review revealed that nearly 2 out of 3 respondents think that their tax is either '100%' or 'very' accurate. This is a positive sign, however, it shows that there is still room for improvement. As businesses and HMRC continue on their digital journey, the procedures and systems that are in place will help to streamline tax processes and improve accuracy.



**Accuracy of VAT submissions - 2019 vs 2020**

# The future of Making Tax Digital

“To become one of the most digitally advanced tax administrations in the world.” This is the ambitious plan for HMRC as it embarks on its MTD initiative. The aim was always that this would be a marathon, not a sprint, and it would involve change from HMRC and also companies across the UK. The end goal being a robust, digital system that is more effective and efficient and overall easier for organisations and individuals to get their tax right.

Much of the drive from the UK tax administration comes from a desire to automate as much of the tax process as possible. With automated systems there are a range of benefits to the tax team:

- Many finance and tax teams are manually reviewing data which is incredibly time-consuming, automation can massively help save time in this area
- With manual reviewing, amends and data entry, human error will inevitably creep in - automation helps to minimise errors
- If time-saving and error reduction weren't enough, this also means that tax accuracy will be improved which our report has only helped to reinforce is the most important factor to both tax departments and HMRC

VAT is only the start of MTD for HMRC. MTD for income tax is planned to come into effect from April 2023 for unincorporated businesses and landlords with total gross income above £10,000, and the government is soon to consult on corporation tax. The roadmap for full tax digitisation is long, with added complexity due to the global pandemic, but the goal remains unchanged.



## What's left for the tax function after automation?

MTD compliant tax technology will help companies prepare, compile and submit their VAT returns online making it faster, easier and more accurate. The argument with any form of automation is that as systems can do more of the tasks that humans once did, where does this leave us?

Tax automation simply helps alleviate errors and save time, it's what the tax function does with this time that will bring the most value. Not only to the tax function but the wider business. As our report showed 62% of tax professionals spend 10 days or more a quarter on VAT, this equates to roughly 2 months a year - imagine what these teams could do with this time back?

Wilmington PLC's Global Head of Tax, Jayesh Rajyaguru, recognises that there's plenty more that tax departments could do with additional time.

**"We've all got massive to-do lists, there are some things on that list that have been rolling over month after month and year after year... there's a big business piece to upskill the people that we work with to be that first line of defence in a lot of the red flags"**

The added time and resource that tax teams will have due to digital tax solutions will allow the function to become a value-add to organisations. An extra benefit is that the same data the systems help to prepare, compile and submit can be used for a variety of activities such as trend analysis and forecasting.

# Conclusion

We set out in this report to compare the results from our July 2019 survey to the results found in the October 2020 survey. The overarching conclusion is that many companies are still in a similar position to where they were 15 months ago.

That being said a reasonable number of businesses are already set up with MTD phase 2 compliant processes and systems which is encouraging. These companies are proactively preparing themselves for the future which is a fantastic position to be in.

There still appears to be some ambiguity regarding MTD phase 2 requirements, however, there is still time for firms to get up to speed and implement a solution if done quickly. Only time will tell if these companies will become compliant before the deadline, but MTD was never only about compliance.

**Making Tax Digital is a vision for how tax processes, departments and systems can look and function in the future. Hyper efficient and accurate submissions that take only a fraction of the time they currently do, with tax functions freed up to become even more integral to wider business decisions. This is a future that will benefit companies, staff and HMRC and is a prospect we should all want to be part of.**







## Survey methodology

In July 2019 ARKK surveyed over 400 tax professionals and created a report titled **'Why tax departments need to embrace the digital era'**, in October 2020 ARKK surveyed 403 comparable individuals to our previous respondents. All respondents have some level of responsibility, either now or in the future, with their company's MTD procedures. The job functions include IT, operations, finance and tax and all individuals currently work within organisations that have over 20 employees and an annual turnover of £50 million or more.



# About ARKK

ARKK began amid the 2009 financial crisis. Two IT architects from the corporate world had an idea that technology and automation could enhance the finance function. Over ten years later, ARKK provides innovative solutions to tax and finance teams.

Our for:sight platform allows companies to move away from manual error-prone data entry methods to seamlessly automate the end-to-end process, from data cleansing and verification to submission. Ultimately, for:sight enables CFOs and their teams to not only save time but go beyond compliance, empowering them to unify, process and gain insights from their data more quickly and accurately than ever before.

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