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The newsletter for forward-thinking professionals

Can you make tax digital?

All you need to know about the impending MTD for self assessment regime.

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MTD: all you need to know

There has been a lot written about Making Tax Digital; Advancetrack® has compiled the key facts and decisions you have to make for your practice and its clients.



AS AN EXPERIENCED ACCOUNTING professional, you will be well aware of the various changes and improvements in financial tech and you won't have missed one of the most significant shifts in recent years: the UK's Making Tax Digital (MTD) initiative.

Aiming to streamline and modernise the tax process, MTD intends to reduce errors and make it easier for businesses to keep on top of tax responsibilities, all while allowing company leaders time to focus on the bigger picture.

In this blog, we'll explain what MTD for business is, how MTD software works and discuss how to choose the right one for your business or account team.

WHAT DOES MTD MEAN?

Put simply, Making Tax Digital is a government strategy designed to transform the tax system in the UK, helping reduce [the tax gap](#).



Along with reducing the tax gap, MTD's overarching aim is to make it easier for the self-employed, sole traders and businesses as a whole to submit taxes correctly and keep on top of financial accounts. The idea is to achieve this by implementing the use of digital tools compatible with MTD to record and report tax information as well as file updates every quarter in a bid to bring the system closer to real-time.

Launched back in April 2019, the introduction of MTD for VAT marked the first phase of HM Revenue & Customs' (HMRC) wider MTD initiative, targeting VAT-registered businesses with a taxable turnover that sits above the VAT threshold. These businesses were the first to be required to maintain digital records and use MTD-compatible software to submit their VAT returns.

In April 2022, MTD mandates were extended to include all VAT-registered businesses, regardless of their taxable turnover (with some exemptions).

As a result, all accountants and bookkeepers must be prepared to support clients with digital record-keeping and submitting VAT returns through HMRC-recognised MTD software.



HOW DOES MTD SOFTWARE WORK?

As many accountants will know (and already be benefitting from), MTD software simplifies the process of maintaining digital tax records and submitting VAT returns directly to HMRC. Here's a basic rundown of how it works:

- **Digital record keeping:** MTD software eliminates the need for paper records and reduces the risk of errors.
- **Automated calculations:** The software can automatically calculate VAT based on the digital records, ensuring accuracy and compliance with HMRC regulations.
- **Direct submission:** MTD software connects directly to HMRC's systems, allowing businesses to submit their VAT returns electronically, streamlining the submission

process and providing immediate confirmation of receipt.

- **Real-time updates:** Businesses and account teams receive real-time updates and notifications from HMRC, ensuring they're always informed of their tax status and any changes in regulations.

HOW DOES MTD AFFECT ACCOUNTANTS AND BOOKKEEPERS?

Since all VAT-registered businesses must use MTD-compatible software to keep and submit their VAT information, this means accountants and their clients must adopt digital solutions to comply with the regulations. Additionally, accountants and bookkeepers need to [set up an agent services account](#) via HMRC to manage these submissions effectively.

VAT-registered clients are now automatically enrolled in MTD for VAT upon registration, eliminating the need for manual sign-ups.

[Research from accounting software provider, Xero](#), shows that 45% of businesses now consider their advisors more valuable to them than ever. Businesses are likely to seek expert accountancy advice and guidance on MTD, meaning clear communication is crucial in supporting clients through transitions like



this. The same applies to businesses making the move to [outsourcing](#) or [offshoring](#) their accounting. Check out our [FAQ: What do I tell my team about outsourcing accounting, and what it will mean for them?](#)

As MTD is continuously evolving, businesses that are exploring the option to outsource their accounting with Advancetrack® – even if your business is an accountancy firm – could unlock new opportunities by enabling the internal team to focus on strategic advice and growing client relationships. Ensuring your team has the scope to develop their knowledge will help maintain your clients' confidence and trust, solidifying your role as an invaluable advisor. For more advice on how this can be possible, here's [a guide to building a successful outsourcing strategy for accountancy and tax practices](#).

MTD FOR SOLE TRADERS AND THE SELF-EMPLOYED

For sole traders and the self-employed, using HMRC-recognised software is essential for complying with MTD requirements. The right software enables the maintenance of digital records and the submission of quarterly and annual updates directly to HMRC from the platform.

If you're a fast-growing sole trader or self-employed, it may be beneficial to consider outsourcing your accounting. By outsourcing accounting and allowing Advancetrack® to help you select the software that's right for your business, sole traders and the self-employed can minimise the administrative burden associated with record-keeping, allowing you to focus more on growing your business.

CHOOSING THE RIGHT MTD SOFTWARE

To select the right MTD software for your client or business, you'll want to consider several factors to ensure it meets their needs:

- 1. Business type and complexity:** MTD for self-employed individuals and sole traders may require simpler software like FreeAgent, while limited companies and businesses with more complex operations might benefit from comprehensive solutions like QuickBooks or Xero.
- 2. Features:** Evaluate the features offered by each software option. Consider what functionalities are essential for the business, such as multi-currency accounting, inventory management, or project tracking.
- 3. Integration:** Ensure the software integrates well with any existing systems and tools. Seamless integration can save time and reduce the risk of errors. Take a look at our

case studies to learn how we've helped our clients achieve new ways of working smoothly.

- 4. Ease of use:** The software should be user-friendly and easy to navigate for your clients.
- 5. Cost:** Consider the budget and pricing plans offered by each software. Some options might offer great features but at a higher cost, so take time to weigh the benefits.
- 6. Customer support:** Reliable customer support is crucial in many industries, but you'll know this is essential when dealing with tax compliance.

Selecting the best MTD software is a critical decision for any business or accounting team aiming to stay compliant and efficient.

By considering the factors above, you can find the right MTD software that aligns with your client's needs. Whether you opt for QuickBooks, Xero, Sage or FreeAgent, investing in the right software will streamline processes and ensure compliance with HMRC regulations, ultimately driving your business towards greater efficiency and success. ■



If you'd like more guidance on Making Tax Digital, [book a call](#) with our experts.



Do AI and accounting mix?

AI is here to stay – but what does that mean for accounting? AI in accounting has a big role in our future – find out how.

IN TODAY'S WORLD, it is no longer an option to overlook the rise of AI in accounting and the mounting capabilities of automated technology and cloud-based software.

With our [Accounting Talent Index](#) also revealing chronic staff shortages within the accountancy profession, with almost one in two (45%) of firms being “severely” or “significantly” affected by skills shortages, more and more of them will likely be turning to automated solutions to bridge the gap and maintain outputs and productivity.

We are seeing rising numbers of accounting professionals embrace the opportunities AI can bring to the industry. Insights from the Thomson Reuters Institute's [2024 Generative AI in Professional Services report](#) found that almost one in four (23%) of respondents were already using or open to using GenAI tools, while 30% of tax and accounting firms are in the “consideration” phase.



The question we need to consider is the extent to which of the benefits are real, or merely hype from a tech industry anxious to sell its shiny new AI toys.

HOW TO USE AI IN ACCOUNTING

The fact is that AI has been used in accounting for many years. Tools like Dext and AutoEntry have been using it to code data from receipts and invoices. Xero have been using it for streamlining bank reconciliations. Robotic Process Automation tools have been used to move data from one system to another. The productivity improvements from these have certainly delivered the benefits of AI in accounting to any firm using these technologies. The question is – how else can we use AI in accounting?

To date, the main space we are seeing our customers benefit from AI in is in communication. Many are using tools that transcribe meetings alongside tools that summarise transcriptions to generate minutes. Some are using GenAI to compose routine emails to, for example, chase clients for missing information. There is a very clear productivity improvement from using AI in this way, however these are incremental changes that will likely fall-foul of the time-based billing



ADVANCETRACK® FOUNDER AND MANAGING DIRECTOR, VIPUL SHETH, COMMENTS ON THE USE OF AI

“It must be acknowledged

that AI unlocks more time for accounting professionals to focus on essential strategic thinking and problem solving, which we all know is where clients identify the best value.

“However, what must also be acknowledged is the role that accountants play in inspiring trust and promoting integrity within the profession. Through our significant experience and expertise, we can calm anxieties, communicate complexities and build long-lasting professional relationships that can evolve alongside changes to technologies and software solutions.

“The accountant’s role has been, for some time now, evolving towards a more strategic and analytical position, and we can absolutely utilise AI to strengthen this proposition. I would always recommend proceeding with caution when it comes to leveraging these tools in the right way.”

The debate on the use of AI in accounting needs to move to being about TRUST. How do professional accountants assure statutory accounts that AI tools have had a hand in preparing? How do professional accountants support their clients in using AI within their businesses, especially their finance processes, thereby living their role of trusted advisor.

models still widely prevalent in the accounting industry.

We have also seen many firms using AI during audits, using tools like Inflo and CaseWare Audit. The audit partners we have spoken to suggest that the use of AI is only adding to the expectations of audit with no commensurate increase in the fees chargeable.

The third area we are beginning to see use of AI is in generation of insights about accounting data. Xero’s AI strategy mentions this as an explicit target, and we expect other vendors to follow suit.

All of these are incremental improvements to accounting productivity due to AI – not the obliteration of the accounting profession that



many outside the profession are predicting. Our view is that these outsiders do not know the industry very well.

CAN AI DO ACCOUNTING?

So, can AI do accounting? For the most part, the preparation of a set of accounts can be automated if the books are accurate. We are still years away from bookkeeping processes being fully automated; or that to happen AI tools need context. For example, how would an AI tool know if a restaurant receipt was travel or entertainment without some input from a person? Beyond that, there are a considerable number of business owners who do not yet use cloud accounting software and still use a lot of paper receipts – it will take many years for this transition to conclude.

So, if we define accounting as merely the preparation of a set of accounts, the answer is yes, AI can do accounting, but not yet. However, that is a very narrow definition of the role of a professional accountant.

WHAT ARE THE BENEFITS OF USING AI IN ACCOUNTING?

AI in accounting is a complex topic and one which will evolve over time. From our perspective there are three main benefits of

using AI in accounting.

- **Boost productivity:** Use of AI tools can certainly improve productivity and reduce time spent on mundane tasks.
- **Trusted advisor:** The ability for you to have conversations with your clients about how they can use AI in their businesses and how you, as a professional accountant, can help them ensure their finance processes are robust.
- **Demonstrate that accounting is an exciting place to work:** Who would not agree that an industry at the leading edge of managing the impact of AI in business and being a trusted advisor to small and growing businesses using AI is not an exciting job.

Along the way, Advancetrack® can support the transition from where you are as a firm now to being focused on assurance and advisory. You could consider our [team-based podsourcing® solution](#), which seamlessly integrates skilled offshore professionals into your practice while you focus on services that add more value to your firm and help mitigate problems attracting talent. Of course, we at Advancetrack® are looking at how AI can be used in our business and how we can support our customers in a future with considerable use of AI in accounting. ■



The advertisement features a dark blue background with glowing blue coins. One prominent coin has the word "AUDIT" written on it. The Advancetrack logo, a green star, is in the top left. The main title "Audit Support Services" is in a white rounded rectangle. Below it, a green section contains text about audit resources and a "Click here for more" button. At the bottom, there are logos for ICAEW, BAI, and Xero, along with the website URL.

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Case study: Easing resource burden

We asked a two-office partnership for some feedback on their reasons to outsource and why they selected Advancetrack®.



WHY DID YOU DECIDE TO OUTSOURCE?

The decision to outsource was made primarily as a result of a lot of maternity leave hitting us at the same time, together with our historic curiosity surrounding outsourcing as a potential option for our practice that had never been acted upon. The time seemed right therefore to give it a go. The advancement in scanning technology was also instrumental in making the decision as this was no longer the administrative burden that it was previously.

WHY HADN'T YOU TRIED IT BEFORE?

We had heard some good stories but also many bad experiences from other companies who had used outsourcing.

WHAT RESERVATIONS DID YOU HAVE BEFORE TRYING IT?

The quality of the work that would be returned, the administration burden of scanning



documents, the unknown. We are accountants and we don't deal with change very well.

WHAT HELPED YOU OVERCOME THOSE RESERVATIONS AND WHY ADVANCETRACK®?

Having known Vipul for a few years made the decision to outsource a little easier. Advancetrack® using the same accounting packages that we used also helped make the decision easier as we would not have to load the returned data onto our system ourselves. The trial jobs went very well and the quality of the work exceeded our initial expectations.

HOW HAVE THE STAFF TAKEN TO OUTSOURCING AND WHERE NEXT IN THE DEVELOPMENT OF OUTSOURCING WITH YOUR PRACTICE?

Initially there was a mixed reception amongst our staff as some obviously feared for their own job security, however once it was

explained the reason why this decision was taken and the change in their roles to one of more value added work rather than pure compliance their opinions quickly changed.

Our next steps are therefore to utilise our own staff more efficiently on client work and look to outsource the pure compliance function wherever possible allowing us to become a more profitable firm.

WHAT'S THE GREATEST BENEFIT YOU HAVE GAINED FROM USING ADVANCETRACK®?

The obvious answer would be the cost benefit which is of significant importance, however by outsourcing the compliance function, it is now allowing us the opportunity to give our existing staff more exciting work on clients allowing them to personally develop and maximise our return on our existing client base.

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