



Making Tax Digital - Our recommendation (summary)

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Useful links:

HMRC’s Making Tax Digital Notice: <https://www.gov.uk/government/publications/vat-notice-70022-making-tax-digital-for-vat/vat-notice-70022-making-tax-digital-for-vat>

Xero’s connected bank partners: <https://www.xero.com/uk/partner-programs/banking-partners/uk-banks/>

Xero features list: <https://www.xero.com/uk/features-and-tools/accounting-software/>

1 Making Tax Digital – What is it?

Making Tax Digital for VAT is a policy being introduced by the UK Government via HMRC to get all businesses that are VAT registered and have a VAT taxable annual turnover that exceeds the VAT registration threshold (currently £85,000) to submit their VAT obligations with online accounting software (such as Xero, Sage or Quickbooks).

This is the first policy of its nature, but in the long term, it is likely that the Government will work towards all reporting being undertaken directly from compliant account software e.g. personal tax returns.

VAT taxable turnover is the total value of everything you sell that is not exempt from VAT.

This policy will come into effect 1 April 2019, so businesses must be compliant by the first VAT period commencing on or after this date. For example, if your VAT period begins on 1 March 2019, you do not need to be using Making Tax Digital for VAT compliant software to submit for VAT return until the start of your next VAT period, if you were submitting quarterly, this would be 1 June 2019.

We understand that once you begin submitting your VAT returns with MTD software, your ability to submit via the old gateway will be removed.

You will not have to follow the Making Tax Digital rules where HMRC is satisfied that:

- > It isn't reasonably practicable for you to use digital tools to keep your business records or submit your returns, for reasons of age, disability, remoteness of location or any other reason.
- > You are subject to an insolvency procedure

If any of these could apply to you then contact the VAT Helpline to discuss alternative arrangements, although it is not expected that these exemptions will apply to many.

To submit your VAT returns online, you must have access to a **functional compatible software**, defined

as a software program, or set of software programs, products or applications, which must:

- > Record and preserve digital records
- > Provide to HMRC information and returns from data held in those digital records by using the API platform.
- > Receive information from HMRC via the API platform

HMRC expects most businesses to use API-enabled commercial software packages (such as Xero or Sage), both to keep digital records and file their VAT returns.

An Application Programming Interface (API) is defined as a set of functions and procedures that allow the creation of apps which access the features or data of an operating system, application, or other service.

How the standard VAT return works (with Xero):

- > Xero calculates the VAT return figures from transactions and journals entered into Xero
- > Your business's VAT scheme determines which transactions are included in the return and the return period they're included in. **Xero bases this on VAT accrual or cash reporting requirements.**
- > The VAT tax rate selected for a transaction line determines how the line amounts, and the VAT are included in the VAT return, or if they're excluded.
- > You can include late claims in your report
- > A VAT audit report for the VAT return will be generated, which lists all the transactions that make up the totals in the VAT return.

For each supply/sale you make you digitally record the:	For each supply you receive you digitally record the:
> Time of supply (tax point)	> Time of supply (tax point)
> Value of the supply (net value excluding VAT)	> Value of the supply (net value excluding VAT)
> Rate of VAT charged	> Amount of input tax that you will claim

For more information on Making Tax Digital:

Read more here at: <https://www.gov.uk/government/publications/vat-notice-70022-making-tax-digital-for-vat/vat-notice-70022-making-tax-digital-for-vat>

2 Our expertise

As a Xero Gold Champion Partner and Sage Accountant Partner, we have the knowledge and experience to help you become Making Tax Digital for VAT compliant on a range of software. With almost 40 years of experience working with accounting software and 140 years' experience working with UK small and medium businesses, we are well placed to provide the advice and support you need to address Making Tax Digital for VAT.

Helping to get your business' accounting on the cloud

We will take you through the installation and training to get the software up and running, get you comfortable using it, and then be on hand to provide support for any issues you may have after the initial set-up. We have produced easy to follow guides for the basics on the software, provide face-to-face and telephone support, such as quarterly check-ups of your accounts. The software platform itself also has an email support system in place to help you.



3 Our recommendation - Xero

What is Xero?

Xero is a market-leading cloud-based accounting software platform for SMEs. The platform has been so successful that it has over 1 million subscribers and a 4.3/5 rating from over 1,200 reviews¹. As well as all the familiar features of finance packages such as profit-and-loss statements and cash-flow statements, it also includes tools for managing *invoicing, bank reconciliation, stock, purchasing, expenses, bookkeeping* and much more. Accessible from any computer or mobile device with internet connection, Xero is perfect for making a smarter and easier accounting system.

What is cloud-based software?

In the simplest terms, cloud computing means storing and accessing data and programs over the Internet instead of your computer's hard drive.

Why Xero specifically?

At Randall & Payne we are experts in accounting and accounting programs, having been using accounting software in one form or another for almost 40 years, we know what is required of accounting software for it to be considered one of the best on the market. After extensive research and testing over the years, we have found Xero to be a great accounting software for SMEs.

"We have recently converted to Xero and I have found it much easier to do our own accounts, features like bank reconciliation reduce the time spent on admin to a minimum and the dashboard lets me understand the performance and position of the business all in one place."

Adrian Stokes, Practice Accountant at Randall & Payne.

"I have been extremely impressed with the smooth transition over to Xero and all of its capabilities.

The assistance we received from Randall & Payne was instrumental in achieving a more joined up accounting function. They listened, understood our frustrations with our existing systems and proposed a solution. Randall & Payne have worked with my team and I to continue to streamline our processes."

Tricia Hay, First Base Employment.

Why should I trust Xero?

We understand that one of the biggest issues businesses have with using cloud-based software are security related concerns (identified to be the top barrier to change by the Cloud Industry Forum with 48% of businesses responding in this manner)². Cloud-based software can actually be more secure than traditional software, this is because Xero recognises that security is of paramount importance, and thus focuses huge resources on employing the latest and greatest cyber security to prevent themselves and their customers being compromised.

With Xero, you set privileges, no one has access to your organisation's data unless you invite them. You can also set up two-step authentication with Xero, meaning you must have a username and password, as well as a unique code generated by an app on your smartphone to log in. This further reduces the possibility of being hacked as the individual must have access to your username, password and smartphone – this is the same security system used by many banking services. As long as you are smart with your passwords and never use the same one for more than one site, your data will be secure.

1. <https://www.getapp.com/finance-accounting-software/a/xero/>

2. Cloud: Driving Business Transformation, Pg. 9, <https://www.cloudindustryforum.org/content/cloud-driving-business-transformation>

The benefits of Xero over traditional software:

Everything your system does – and much more:

The main function of Xero is to record data in the simplest possible way – it will take your data (receipts, invoices and bank statements) and provide meaningful outputs so your business performance and position can be easily assessed on a day-to-day basis. The primary difference is that these calculations are provided automatically, reducing the risk of manual entry errors.

Cost: This can potentially be reduced by using cloud-based software, as you may no longer need to buy and maintain expensive local hardware. The subscription fee to Xero includes as much storage space on their secure servers as you need. Updates are also part of this subscription, so you do not need to buy a new software program and update all the computers on your system when the new version is released.

Accessibility: Xero lets you log in and access the software from anywhere in the world with an internet connection, this can be useful if you are often on-the-go or regularly work from home. When stored on the cloud, data is updated in real-time, meaning if one user updates the records on one device it is updated on all devices. Xero makes back-ups of the data automatically, if a computer crashes work is not lost.

Scalability: As the business grows you are not limited by the size of your on-site storage you can afford to purchase and maintain. Xero gives you near unlimited storage space to use. Xero also allows for unlimited users to be added as your company grows and for them to be given specific roles and permissions, giving them access to only what they are supposed to be able to access. It is easier to find and bring up your files as they are stored in one searchable place.

Xero education: Xero education provides the user with a bank of tutorial videos and guides to use for all aspects of the software platform. There are also short courses available which take the user through a set of interactive lessons to teach the user how to use the platform. This is constantly being updated to bring out more learning resources for the user.

Features of Xero:

> A mobile app (Xero Me) to keep in touch with Xero on your smartphone or tablet	> Smart, customisable reports and budgets that can be auto-generated, no need to import into Excel
> A bank connection (with most major banks) ³ so transactions automatically flow into Xero	> Bank Reconciliation to match your bank transactions to invoices and receipts
> Pay bills on time with bill schedules and automatic reminders	> Automatic CIS deductions from bills and invoices
> A streamlined quotes process	> Multi-currency handling (Xero Premium)
> Accept payments from online payment services like Stripe and PayPal	> Business Performance Dashboard to see everything in one place
> App marketplace to find integrations	> File storage in one easy to access place
> Online purchase orders & invoicing	> Fixed assets management
> 24/7 Email support with the aim to sort your issue in 24 hours	> Stock control
> Xero tracking – split your firm into regions/ departments for better monitoring	> A demo company to practice with, this demo company has no effect on your live data and can be reset at any time.

3. <https://www.xero.com/uk/partner-programs/banking-partners/uk-banks/>

Find out more here: <https://www.xero.com/uk/features-and-tools/accounting-software/>

Xero optional extras:

All of these optional extras are ideal for small firms, there are specialised apps that integrate into Xero for larger firms to use. E.g. AutoEntry for data capture or Deputy for payroll.

- > **Data capture (Xero expenses): £2.50 per user per month**
- > **Payroll: £5 per month for the first 5 employees + £1 per month for each additional employee**
- > **Xero Projects: £5 per user per month**

The conversion process:

We will convert your accounts by first creating a Xero account for your business, we will then connect your bank account to your Xero account (Xero connects to most major banks⁴) to set up an automatic bank feed that imports transactions for matching to invoices with the bank reconciliation feature. Next is to set up your chart of accounts, personalising the accounting codes and descriptions to suit your business' practices. Finally, we will take you through

the other features of Xero, such as generating reports, to make sure you know how to get the most out of the software.

We will also provide quarterly or annual check-ups to check the data going into your accounts is being input correctly, or if you would rather we can do the whole bookkeeping process for you, guaranteeing them being done up to accounting standards (see more on page 7).

Converting from Quickbooks and Sage: You need not worry about converting over to Xero as there is no need to manually input all your data. If you are using Quickbooks or Sage, it can automatically convert the past 24 months of your accounts using an app called MoveMyBooks⁵. On conversion from other software, just the opening balances will be imported. If you want your accounts for previous months on Xero this can be done at additional cost.

The best time to convert is at the quarter or year-end, it can be done at any time but will take longer to do midway through a period.

4. <https://www.xero.com/uk/partner-programs/banking-partners/uk-banks/>

5. <https://www.xero.com/uk/campaigns/change-to-xero/>

4 Xero's integrations – additional functionality

There are hundreds of apps out there that integrate into Xero (over 500). Please look at pages 15 – 17 of the full report for some examples of apps that integrate with Xero, this is to give you an idea of what the next stage of cloud-based software is once you have upgraded to using Xero, with the potential to operate all of your core business functions on cloud-based software.

A list of apps that integrate with Xero: <https://www.xero.com/uk/marketplace/s/app-functions>

If you are interested in switching to Xero but uncertainty is holding you back, contact us on 01242 776000 or MTD@randall-payne.co.uk

5 Our services that complement Xero

Bookkeeping:

Why not let us do the bookkeeping for you and let you focus on your business. We will do the data entry for you which you can then use to make decisions on the business. The bookkeeping can be carried out at a frequency of your choice but must be at least once a quarter in order for us to prepare and submit your VAT returns to HMRC.

Quarterly reviews:

Alternatively if you are data inputting but want some reassurance the data you have entered is reliable and accurate, we can carry out a review of your Xero for errors or mispostings. You then know your Xero accounts are reliable to send off important items such as VAT Returns. To prevent any issues let us check your accounts, giving you sound peace of mind.

Annual accounts:

We can produce your annual accounts from Xero and then transfer these into statutory format, compliant with accounting standards, ready for submission at Companies House and HM Revenue and Customs.

Tax services:

Xero offers no tax services, which is where we come in. With tax legislation increasingly difficult to keep up with, you need experts who know the details, what your responsibilities are, and how tax might affect you or your business.

Tax planning: The earlier you take tax into consideration, the easier it is to save. We provide proactive, ethical tax advice, with the aim of legitimately minimising tax liabilities while meeting your objectives.

Tax compliance: With the Government's Making Tax Digital legislation just around the corner, HMRC will begin to demand more information. It's even more important to make sure you're making the correct submissions to minimise any additional scrutiny and avoid potential investigations which can lead to paying hefty fines.

By working with our tax team, you can have peace of mind knowing that we'll give HMRC all the relevant information at the right time. With sound advice, we'll not only minimise your tax, but reduce the risk of any tax investigations. Whether you need assistance with VAT, research & development tax relief, corporate tax issues or personal tax, our expert tax accountants in Cheltenham are here to help.

Business advisory:

The data from your Xero platform tells you how your business is performing and may highlight "The What" – what needs to change to improve performance. From this start point our Business Advisers will help you focus on "The How" - how to make the changes necessary to increase profit and cash, allowing you to invest in and grow your business. Typically you will need to ensure you have the right Plan, People and Processes in place.

Curious to see how you could improve? Complete our 5 minute Business Growth and Profit diagnostic today to help you identify the top three areas to work on and take your business to the next level. Take the test here:

<https://www.randall-payne.co.uk/services/business-advisory/mindshop-gps-diagnostic/>

Payroll:

Xero and other cloud-based software offer payroll functions but our outsourced payroll solution saves you all the frustration involved in operating your payroll in-house. We make sure that everything is accurate and compliant with HMRC and government regulations and deadlines. Whatever the size of your business, we offer a fast, efficient, and professional payroll service to reduce your in-house costs, ensure accuracy, and reduce pressure on your in-house team by covering every eventuality. Using an online portal for transmission of data and reports to ensure GDPR compliance, which also provides access for employees for payslips and other documents.

OUR SERVICES THAT COMPLEMENT XERO

Management reporting:

Using cloud-based accounting software together with automating data capture, your management accounts will then provide you with accurate, real-time information, giving you the confidence to make more informed decisions and ensuring you're fully equipped for every step in your business journey.

We work with you to determine which reports you require, and can include:

- > Monthly profit and loss, with a year-to-date balance sheet
- > Gross margin split across your business sectors, or in other ways that are relevant to you
- > Budget comparison with variances
- > Comparison with previous months or years

Financial forecasting:

Forecasting is useful for several aspects of your business, including:

- > Understanding break-even points and minimum profitability requirements
- > Highlighting the importance of credit control policies and the direct impact on cash flow
- > Finding out whether your business could borrow or raise funds
- > Target setting for individual teams within your company
- > Highlighting under performing aspects of your business

To provide maximum value, we present a best, worst and expected case scenario. We also assess the sensitivity of the forecast – for example, how much income needs to fall by or costs need to increase by to impair financial performance. Finally, we create an assumptions document, so that an independent reader can understand the basis upon which the forecasts were prepared.

Forecasting for credit facilities:

Our forecasts are often used as part of applications for credit facilities. We have an excellent working relationship with many banks and prepare our forecasts in a way that banks welcome and expect, which often helps to hasten the application process.

Alongside our forecasting service, we can also assess any of your internally produced documents and review them for accuracy. We often report to banks on client-prepared forecasts, ensuring that applications for credit are robust.

If you are interested in any services by Randall & Payne, contact us on 01242 776000 or MTD@randall-payne.co.uk

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