HM Revenue & Customs

Research report

Use of VAT software

Research into the use of commercially available 3rd party accounting software

Ipsos MORI

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About Business Customer and Strategy (BC&S)

Business Customer and Strategy is part of Business Tax.

The goal of BC&S is to maximise Business Customer compliance for HMRC at best cost for both HMRC and the customer. This is done by developing business tax strategies through customer understanding, working with teams in HMRC and across government departments.

Contents

Research requirement (background to the project)

Ipsos MORI was asked to conduct research into the use of commercially available 3rd party software for producing VAT returns. In particular the research focussed on the use of function available on some software which allows users to automatically submit VAT returns directly to HMRC from the software – the 'XML' function.

Participants were asked to discuss

- Their experience of using 3rd party software for building VAT returns
- Their awareness of the XML function, and their reasons for using it or not
- What might encourage them or others to use the XML function

When the research took place

50 telephone interviews were conducted between 23rd February and 16th March.

Who did the work (research agency)

Ipsos MORI in collaboration with HMRC project team, with members from Business Customer & Strategy and Indirect Tax.

Method, Data and Tools used, Sample

Method
50 interviews were conducted by telephone and lasted 30 to 45 minutes. A discussion guide was developed in conjunction with HMRC. The key areas it focussed on were:

- The experience of using 3rd party software for building VAT returns
- Awareness of the XML function, and their reasons for using it or not
- What might encourage them or others to use the XML function

Sample
Two samples were used; the first was a sample from HMRC of XML users. The second was a commercially available sample of VAT-eligible businesses (which included tax agents), for which a screener was used to identify those who used VAT software. A donation of £50 was made to a charity of the participant's choice, as a 'thank you' for taking part.

This research reflects the views of
- 30 x businesses using 3rd party software but not XML;
- 10 x businesses using 3rd party software and XML; and
- 10 x tax agents who are paid for their services by HMRC customers.

Main Findings

Overall findings

Generally participants find their **software user friendly and very good for recording VAT**-related information, and producing accurate final figures for VAT returns.

XML users value the function because it **saves them time and effort:** rather than having to go onto the HMRC gateway and complete a return, and then login to online banking and set up a payment, both steps are combined through the software. XML was also felt to reduce the risk of transposition errors.

Non-XML users do not use the function for various reasons, including:

- Their software lacks the function

- Lack of awareness or familiarity
- They are in the habit of not using the function
- They prefer to submit manually as it helps them sense check figures
- Lack of trust in the software or HMRC
- XML would not be appropriate for their business

Agents and users also highlighted that the outputs produced by software are only as good as the data that goes in, and that using XML will not help avoid errors at this stage.

XML users

Those using the XML function find it to be an obvious time saver and are very satisfied with their use of it. It was also perceived to eliminate the possibility of making transposition errors when completing the online VAT form manually. Once users had begun using XML, they did not return to manual filing.

> *'I print off the documents I need, then it comes up with the next page,*
> *which sends the document to HMRC, then you select the date you*
> *want the payment to come out. It takes five minutes, it's so easy.'*
> *XML user, Waste management, Staff of 14*

A particular advantage of XML is that rather than having to go onto the HMRC gateway and complete a return, and then login to online banking and set up a payment, both steps are combined through the software. This means that people do not have to keep track of whether they have paid their VAT as a direct debit is automatically taken out.

> *'It's clearly better than filling it in manually. It's so easy and cuts down*
> *so much on the time. It's literally there on the screen; it shows you've*
> *submitted it, and sent payment; whereas before it was like 'God I*
> *must remember to login to the bank and set the payment up and I*
> *need to go onto the Gateway and fill that in, transpose the*
> *information.' I'm quite forgetful so it's really a help for me.' XML user,*
> *Waste management, Staff of 14*

XML users find it particularly reassuring to receive an email confirming the submission.

> *'It is so much better, it avoids the copying across. What is nice about*
> *what happens is that you get the confirmation from HMRC that the*
> *return has been filed, and then you can see that the money is taken*
> *out of your account.' XML user, Educational materials, Staff of 2*

Often XML users came to be using the function through 'playing around' with an updated version of the software - it is the time and inclination to play around with technology that often non-XML users lack. The fact that this was a common path demonstrates the need

for greater awareness-raising from the software providers and/or HMRC in order to guide users into using the XML function. The alternative route to finding out about the function was for users to be shown it by colleagues or predecessors.

Overall, XML users found the function to require less time and effort and to be more reassuring than a manual process.

Non-XML users

Non-XML users faced various barriers to use. The key barriers are explored in detail below.

Their software lacks the function

For some their software does not have the function. They are either using relatively old software - one participant had been using the same version of their software for over 12 years - or the function is 'greyed-out' awaiting upgrade before it is available.

Some 3rd party software even if up to date, does not have the XML function.
It was noted that smaller companies with smaller profits were more likely to be using the cheapest versions of software available, and less likely to update it.

There was resistance to the idea of changing software brands to in order to access the XML function, as participants were generally comfortable with their existing brand, and changing would be too much inconvenience.

> *'I would not swap packages, I would stay with QuickBooks. I know QuickBooks, I quite honestly would not want to transfer all that information from QuickBooks to Sage, it's a lot of man hours ... It's something I would use if it was within the package.' Non-XML User, Food manufacturing, Staff of 9*

Lack of awareness or familiarity

Some have simply never heard of the automatic submit or 'XML' function. There are also those who are passive users of technology and tend not to explore the capabilities of the software they use. For example, some found that when they upgraded their software the XML button simply appeared, with no explanation. Without guidance, they did not want to experiment with the function as they were not familiar with it.

For many, their unfamiliarity with the function raised questions and concerns about how the process would work:

> *'What's going to happen when I click the button?' Non-XML User,*
> *Industrial imports, Staff of 14*

> *'Is it going to require me to set up an account? I haven't got time to*
> *be logging in.' Non-XML User, Food packing, Staff of 13*

Small businesses also often lack the internal expertise to set up new accounting and VAT processes for those who are less confident with IT.

<u>In the habit of not using the function</u>

There was a general tendency for people to stick to their habits. There was often no particular wish to change a VAT filing system they have found to be effective – 'if it isn't broken, don't fix it'.

Many we spoke to had been doing VAT manually for over ten years, and it had become 'second nature' to them. Doing a VAT return was not felt to be onerous and it occurs so infrequently that there is no pressing need to find perceived minor improvements in efficiency.

> *'It would be quicker for accountants, but we just have to do it every*
> *three months. It doesn't take long.' Non-XML user, Freight transport,*
> *Staff of 3*

> *'Never found it much an issue. It takes it two minutes. It's so simple.*
> *The maximum number of things you have to do is fill in 6 boxes, and*
> *you think how hard can that be?' Non-XML user, Water sports retail,*
> *Staff of 4*

Even several accountants were happy to continue without using XML, as they found the manual submission sufficiently fast.

<u>They prefer to submit manually as it part of their sense check of the figures</u>

Printing VAT reports on paper, and then submitting manually, both provide extra sense checks which can be used to pick up errors. This tended to be more common among older participants, but was also an approach used by some agents.

> *'It's like a final check, an extra layer of security that you are entering*
> *the right figures.' Agent*

> *'We shy away from the automatic submission, we tend to like the*
> *thought process that you go through when you do it manually; it's the*

> *final critical overview… you really concentrate on the final check when you key in a figure; it means something, it's going through your mind that this is going to the Revenue.' Agent*

> *'Myself and my boss are of a certain age, we prefer to have paper copies' Non-XML User, Food packing, Staff of 13*

Ultimately there is the perception from some businesses that, by using the automatic XML function, they may well end up bypassing or forgetting these important checks.

Lack of trust in software or HMRC

Participants often lacked trust in either the software or in HMRC's processes, making them very hesitant about attempting to submit VAT via XML. Several participants would prefer to speak to their accountants to check to see if people have problems with the XML function, or if it is 'safe to use'.

> *'I'm not one for always trusting clicking a button and trusting it to be correct. [Once upgraded to software with XML function] for the short term we'd carry on doing it manually and have the accountants checking. For our own peace of mind.' Non-XML user, Mail order Company, Staff of 1*

One participant's reluctance to use XML was due to a suspicion that the Sage program may be submitting more than the bare minimum of information required to complete a return. The concern was it may be including individual transaction information which would allow HMRC to examine the basis of the company's return in detail.

It was also the case that some participants had found setting up new processes with HMRC to be difficult in the past, and were resistant to trying again by linking their software to HMRC's systems:

> *'A lot of things with HMRC setting them up at the beginning is an absolute nightmare. I can't think of an area which hasn't been. If you think of online personal tax returns at the beginning that was a nightmare, the payroll submission that was a nightmare.' Agent*

This is combined with what was felt to be insufficient or inaccessible customer support from HMRC, which again reduces people's likelihood to experiment with new procedures.

> *'If you go on a bank website, if you've got a problem, you get someone come up in the corner saying 'Can I help you?' HMRC has to be far more accessible and immediate in its response. Because it's frightening, and you think 'You know what? I think I'll just stick to*

> *the old manual system, because I know it works, I don't have any problems doing that, I'll whizz through it.' What I don't want to be doing is stuck with it for a whole day and trying to ring them.' Agent*

Similarly one participant had been having difficulties getting their accounting software to fulfil its basic functions, which made them unwilling to explore any other functions.

Also cited as a barrier is more general fear of, or resistance to, technology and automated functions, especially among older generations who may prefer to do things manually.

> *'It's probably an age thing. Trust in technology - there's probably a lot of people who have been using accounting systems for many, many years who are used to doing things their way. People doing accounts are probably usually aged 40 plus, who are more used to doing things manually generally.' Non-XML user, Boiler installation, Staff of 10*

> *'People are suspicious of automated processes - things can go wrong. It's about reassurance. The first time I had to hit the return button, I was quite nervous. It's like the first time you buy anything from an online store - are they legit, is it going to work?' XML user, Educational materials, Staff of 2*

Naturally inputting the figures directly to HMRC sidesteps any of these trust issues:

> *'It's the peace of mind that it's actually gone over to HMRC because you're actually on their website' XML user, Outdoor wear retailers, Staff of 30*

Suggested solutions: Awareness raising

Awareness raising initiatives from both HMRC and the software providers would help overcome several barriers to using the XML function. Ideally it would:

- **Inform** people about the benefits; saving time and effort

- **Explain** how to use the XML function, that it is easy to set up

- **Reassure** about the step-by-step submission process, for example that XML users receive a confirmation email from HMRC

While businesses should be the main focus, agents, including bookkeepers, should also be a key target audience if HMRC wish to increase XML use, as several were not using the XML function, despite the large volume of VAT returns they submit.

Key messages

Inform: People first need to be made aware of the function. The benefits then need to be explained, including:

- That XML saves time by users not having to log into HMRC website, inputting the password and ID and then inputting the figures.
- That XML reduces errors, and highlighting the errors received by HMRC due to manual processing

These benefits could potentially be highlighted by using quotes from satisfied XML users.

Explain: Explain how the XML function works and how to set it up. Ideally, non-users would be able to view a 'walk through' animation of the process. As the process will differ between software providers, they would be best placed to provide these explanations.

Reassure: Some need reassurance that the submission is highly secure, that the information will be delivered instantly and accurately, and an email receipt from HMRC will be provided. Ideally there would also be a checking facility once the return has been sent to HMRC to demonstrate that the information has arrived intact and accurately. Several participants even suggested that the software could provide a screen showing the HMRC form being completed, to provide maximum reassurance.

Overall findings

The behaviour of both XML users and non-users can often be explained by the same motives: the desire save time and to reduce the risk of error.

- **XML users** feel that the function is a clear time saver and reduces the possibility of transposition errors.

- **Non-XML users** often do not wish to invest the time in finding out about the function, and are confident that their manual inputting process ensures accuracy as it allows for double-checking of figures.   Reassurance about the ease and reliability of XML is important for this group.

Ultimately, however, both agents and businesses recognised that using XML would not help the issue of incorrect information having been inputted into the software, which was perceived to be a key source of error:

'We sit down with reams of paper and make sure there's no human error input. That's probably one of the biggest pitfalls; to rely on clicking a button to send it out without first doing a little bit of

*investigatory work to make sure that those figures are correct.'
Ventilation manufacturer, Staff of 30*

'When you're adding invoices to your ledgers, it's a manual input and human error can always happen. It's human nature. Posting hundreds of invoices into a system is laborious and you just have to make sure you do it correctly.' Non-XML user, Mail order, Staff of 1