

Making Tax Digital

*Preparing small businesses to
maximise the benefits*



Foreword

The Genesis Initiative has been working for over twenty years towards a better environment for small businesses. Some of the most positive advances over the life of Genesis have been brought about by new technology. It has improved both productivity and profitability as well as quality of work and of life. No small business should be left behind and excluded from these changes where there is benefit to be had.

The new Genesis work programme on digital opportunity and education for SMEs is a positive step. This first paper “Making Tax Digital: Preparing small businesses to maximise the benefits” looks at how one government programme for tax administration might be able to lever much wider digital benefit throughout the small business economy. Crucially, it also considers the specific education many small businesses require if they are to succeed in today’s digital economy.



HRH Prince Michael of Kent, GCVO
Founder Patron of The Genesis Initiative

Paying tax digitally

Making Tax Digital – Are small businesses prepared and how can they maximise the benefits?

The Genesis initiative represents stakeholders in the world of small business and the self-employed (SMEs). These are members of its Senate, including 115 trade associations with over 1 million members, plus experts and academics in the SME world. Genesis does not have a corporate view. It works to increase the quality of debate in the SME sector on issues critical to the UK's economic wellbeing.

HMRC's *Making Tax Digital* (MTD) programme will bring all but the smallest businesses to self-manage their tax affairs in a real-time online relationship with HMRC. It offers productivity advantages to both parties. It also offers the potential to introduce wider digital business improvement across the SME sector as every SME must have a relationship with HMRC.

Narrowing the digital skills gap amongst UK SMEs offers the greatest opportunity to maximise the success of MTD and the benefits it can present for UK productivity. It is this digital tail that needs to be prepared for MTD. This will require strong public-private partnership with accounting and software professionals. The dividend for success could see MTD becoming a lever to introduce the 21st Century business advantages of digitalisation to many more businesses.

Genesis has partnered with accountancy software provider Intuit to support the successful roll-out of MTD and the broader opportunities digitalisation offers small businesses in the UK.

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About the Author

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I. Introduction

1.1. Introducing Making Tax Digital

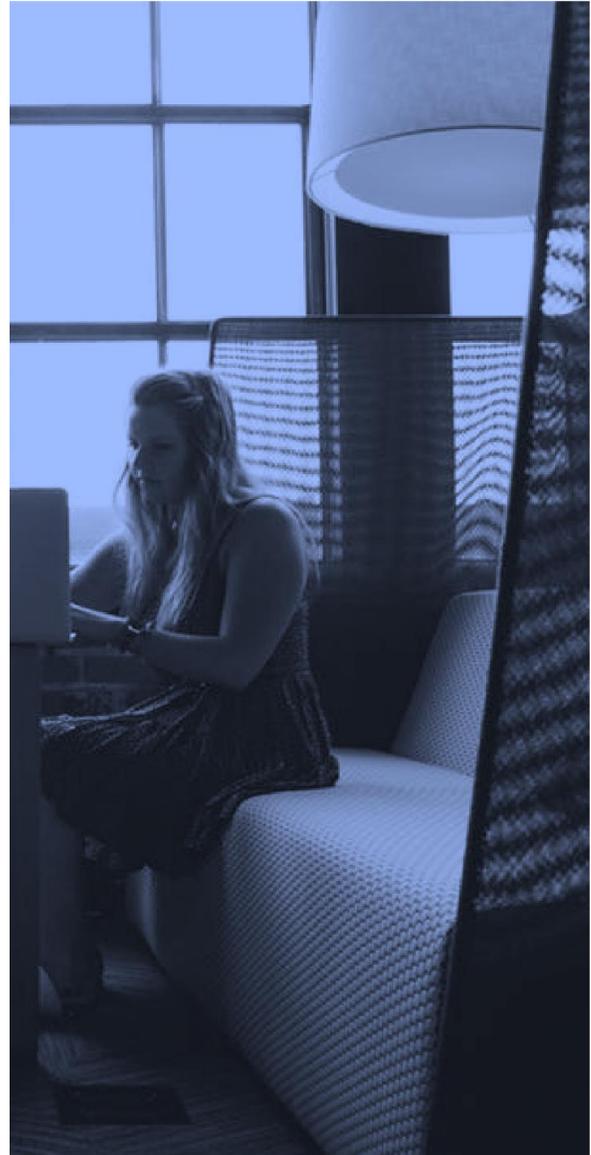
Under the Making Tax Digital for businesses initiative, from April 2019, businesses registered for VAT that have a turnover above the VAT registrations threshold of £85,000 will be required to keep digital records for VAT purposes and submit VAT returns to HMRC through MTD compatible software. Except for the smallest businesses which will maintain an opt out if they wish it, all others will be lined up to follow. The pressures of Brexit and other projects has persuaded HMRC to relax timelines for the non-VAT registered SMEs.

MTD reflects the thinking of tax authorities worldwide. Potentially it offers efficiency and business improvement advantages, both to the SMEs that form 99% of the economy and to HMRC.

1.2. Introducing the Genesis MTD project

Genesis believes that success for MTD will be defined by the digital inclusion of the long tail of less digitally astute businesses, not only by its effectiveness with the knowledgeable and willing. As the OECD sets out, digital inclusion criteria are the essential for the success of any digital tax programmeⁱ. Parliamentarians have pointed to a national digital skills crisis amongst SMEsⁱⁱ. For Genesis, digital inclusion is an ongoing priority for UK competitiveness. Genesis believes that a successful MTD programme could help to strengthen digital skills in the broader SME economy, leading the way for other changes. Broadly, Genesis knows that digitally aware and effective businesses are more profitable, make better use of time and more likely to grow.

From March to June 2018, Genesis set out to understand digital awareness in the SME community in the context of the MTD programme. Genesis used survey and qualitative group work for analysis and to discuss ways forward.



This paper sets out the concerns raised by Genesis's MTD process to date, within the broader context of the digital skills deficit and digital inclusion in the SME sector. It then proposes immediate and longer-term courses of action.

Genesis has worked with accounting software provider Intuit to develop this programme and looks forward to reviewing the development of MTD and its broader impact on a regular basis as part of a long-term programme reviewing digitalisation in UK SMEs.



2. Conclusions and recommendations

2.1. Conclusions

Genesis's survey and focus group process suggests:

- That at least 40% of SMEs are not adequately aware of MTD and advantages it offers, this corresponds to the broader SME digital knowledge deficit
- Leaders respond, the digital tail tends not to. This means that the proportion of SMEs unaware of MTD could be higher than the stated 40%
- At least 25% are SMEs still use primarily manual systems, without the assistance of accounting software; particularly at the smaller and self-employed end of the business spectrum
- Less than 15% of those with awareness of MTD have become so via government sources. Trade bodies and online sources appear to have greater reach
- Over 90% of SMEs would point to advice from their accountant or a software provider as the best way to become more digitally resilient, but 70% think HMRC should provide specific MTD training
- The potential advantages of MTD is as yet unclear among many small businesses, with equal proportions see negatives as see positives
- Genesis focus groups suggest trade association members have real concerns about the potential complexity of complying with MTD even with compatible software, but in contrast the same groups pointed towards some positive individual experiences. This may reflect fear of change as a factor in the run-up to implementation.

The Government should move forward with MTD; but it should hear the wakeup call. More digital support for MTD is needed to close the SME skills gaps that may inhibit its effectiveness. In this respect the new national retraining scheme announced in the last budget can and should be key. Government can also work with the financial professions and software industry to make MTD a business productivity and profitability opportunity.

2.2. Recommendations

- HMRC should use the delayed roll-out to focus their attention on ensuring all small businesses above the VAT threshold are aware and ready for MTD. HMRC should adopt a clear communication strategy to encourage as many businesses as possible to incorporate the appropriate systems and software to be MTD compliant at the earliest opportunity. This

approach should then be extended to the wider SME community which should be encouraged to make the same journey

- When circa 40% of businesses are not aware of MTD, targeted support should focus on involving the accountancy and bookkeeping professions, as well as accounting software providers. This would be credible within the SME community and would increase HMRC's leverage, particularly working through trade and professional associations. Local outlets for the National Retraining Scheme should be the focus to mobilising this support
- HMRC should re-energise its digital ambassador programme to meet business expectations that its request of business is paralleled by an offer of HMRC's own
- Inevitably many SMEs are wary of change and do not have an obvious way to trust software providers. Thus, an attainable but robust benchmark or kitemark should sit behind digital tax and accounting programmes
- HM Treasury and HMRC should form an expert working group which meets regularly and consists of key stakeholders from small business groups, software providers and accountants to ensure progress is closely tracked and best practice is identified
- HMRC needs demonstrable wins, where business owners see that digital tax is easy, does not just work to provide tax and information for HMRC but saves time and money for them; pilot schemes are important, perhaps with trade associations; before digital tax becomes virtually compulsory for smaller non-VAT registered SMEs
- The education and training system must continue to build digital skills for the longer term, when up to 50% of employees may have a digital skills deficit. Awareness of digital apprenticeships should be a focus, likewise of sub-apprenticeship qualifications focussed on specific workspace skills. The National Retraining Scheme, when launched should be focused on identified SME needs, as well as those wishing to work or about to enter the workplace.



3. Genesis and Making Tax Digital

Genesis leaders have always seen significant advantages in digitalisation, whether to make businesses more efficient and more profitable, or to free up time for external activities from business education to community commitment.

Why make tax digital?

Over the last 20 years revenue bodies worldwide have seen the advantages of transforming their operation through computerisation and digitalisation. Use of digital technology by both businesses and by individuals has similarly grown significantly. After inevitable initial hiccups, these developments have offered ease and time savings that are attractive and effective for taxpayers and revenue authorities alike. There should though be no doubt of the cost of getting it wrong. In the UK the troubled introduction of self-assessment, with a large digital element, created a climate of high scepticism about HMRC programmes and capacity. Ideally, with digitalisation:

- Automation of basic tax processes takes away much human error and delay, making most processes routine. This gives a higher standard of service, speed and a focus on individual case problem solving for the minority of difficult instances for both the business and revenue authority side of the equation
- Generally, it becomes less likely that taxpayers unintentionally fail to comply with the law. Revenue resources and help can be concentrated on complex cases
- From the revenue authority side, average telephone and face-to-face interactions cost between 2 ½ times and seven times the cost of an automated service
- As services develop, businesses should be able to see their tax situation in real time, to input emerging data about the business and to know how much tax they are likely to have to pay, rather than calculating year end. Taxpayers will come to have a single financial account with HMRC, so they can see all their tax relationships, obligations and entitlements, both in the context of their business and personally together; similarly, to online banking.

For the government, digitalisation will produce “big data”, which should be useful in building further understanding of the state of the economy overall. It will also provide much more information about categories of businesses and from that the context of individual firms, so to improve collection rates and push back against the grey economy. With over a hundred countries signing up to the automatic exchange of tax information, tax digitalisation is a big weapon in the armoury against national and international tax evasion, as well as against simple error. It is suggested that the UK alone has a tax gap of non-collection of over £8 billion, £4 billion from companies. Today, 95% of revenue authorities are somewhere on the digital pathway . Likewise, “virtually all business tax returns and over 90% of personal tax returns are now e-filed”. Thus at least in theory, it ought to be easy.

The UK government announced plans to make tax digital for almost all businesses in 2015. Today, every individual business has access to their own personalised digital tax account, with a constantly improving service, to make taxation “more effective, more efficient and easier for customers to comply” . There will be an opportunity to provide quarterly updates for other taxes as well as VAT related information and everyone will have the option to use commercial software to keep track of their tax affairs digitally

and update HMRC on a quarterly basis. The MTD process has been slowed, after pressure from SME representatives and because of the additional work and HMRC involvement in Brexit preparations. Thus, only VAT registered companies will be affected in 2019.

Whilst there is the suggestion that other businesses will follow a year later, the current intention is not clear.

Looking to that first introduction of compulsory MTD in April 2019, even among digitally literate and aware firms, there is concern about the requirement to have MTD compatible software in place that can create a VAT return and connect to HMRC systems via an Application Programming Interface (API). This is a much more complex process for businesses than the current online process for completion of VAT returns. So, whose software? Who will install it? Who will train the users? What happens if it goes wrong, who is responsible?

The biggest positive offered by MTD, is the opportunity to use it to infiltrate the digital tail, lower-tech SMEs and to support a culture of digital improvement. Failure next year could be damaging and discourage other digital progress.

Case Study – Interim Management

Tom Brass has held a senior role in the Institute of Interim Management for some 18 years. Professional career interim managers are from a wide range of disciplines taking roles often in large organisations of all sizes and across public, private and charity/not-for-profit sectors alike Interim managers typically work on a self-employed basis through their own personal limited companies. “Digital automation and computing have made interim managers more agile and allowed us to focus more time on the client end, removing administrative requirements. Initiatives such as MTD further improve the ease and efficiency of processes, but only if processes and software are easily understood by interim advisers themselves and by clients. My colleagues usually have a high level of computer literacy, but new systems such as MTD need to be easily introduced if there is to be an efficiency legacy for the client after the interim’s assignment ends”.

Findings of the Genesis MTD programme

Genesis's interest in digital tax began with the introduction of self-assessment online during the early years of the last decade. Today the process may be every day for advisers but at the time it demonstrated how much could go wrong with a policy which looked to be leap before you look. At the time, it appeared that in the first year, over 90% of self-assessment returns involved either user or HMRC error; generally, no one felt the system was ready.

Genesis organisations had raised concerns about MTD, which crystallised as the April 2019 deadline became more immediate. Mindful of lessons hard learned, during March to June 2018, Genesis launched a dialogue with member organisations of its Senate on the progress of the digitalisation of tax relationship with HMRC and the MTD initiative. The Genesis Senate brings together 115 SME focused associations, primarily independent SME and self-employed trade associations, but including some broader business associations and a few business wide trade and professional associations with specific SME subgroups.

As well as discussions in the Genesis Senate, with about 50 organisational representatives present, focus groups and one-to-one meetings with leaders; 35 Senate organisations responded to our survey, representing 30% of the membership, giving reactions from leaders and representatives from well over 250,000 businesses. While some bodies responded from leadership groups, others consulted samples of or their wider memberships and the picture was consistent. Participants in the discussions also took the view that this should not be a snapshot project, but that further sounding should be taken at key dates in the MTD process to assess preparedness and levels of success and cultural change.

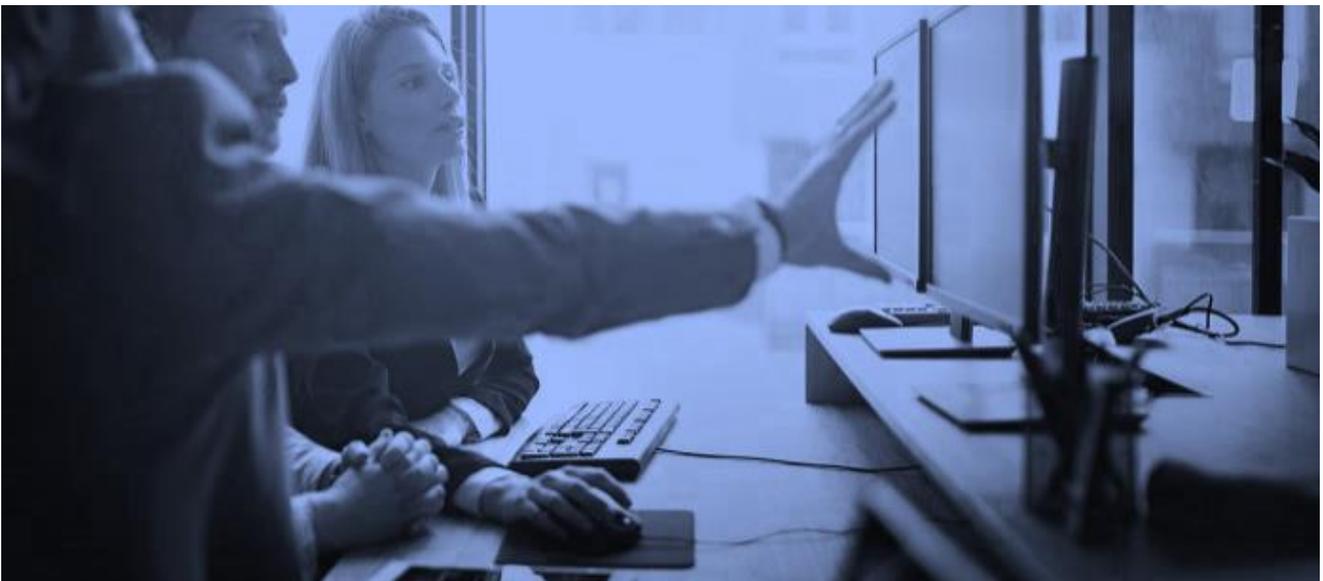
The Genesis survey in May and June of 2018 suggest that some 40% of SMEs are unprepared or unaware of the road towards digital tax or the systems required, it is "not part of their mental map". These findings are broadly consistent with work conducted by the British Chambers of Commerce and the Federation of Small Businesses. What is perhaps more worrying is that those who respond to surveys, on the whole, tend to be from leadership and activist memberships, whom are often exactly those easiest to reach and have headspace to consider issues such as this. Headline Genesis findings were:

- At least 40% of SMEs are not adequately aware of MTD and advantages it offers, this corresponds to the broader SME digital knowledge deficit
- Leaders respond, the digital tail tends not to. This means that the proportion of SMEs unaware of MTD could be higher than the stated 40%
- At least 25% are SMEs still use primarily manual systems, without the assistance of accounting software; particularly at the smaller and self-employed end of the business spectrum
- Less than 15% of those with awareness of MTD have become so via government sources. Trade bodies and online sources appear to have greater reach

- Over 90% of SMEs would point to advice from their accountant or a software provider as the best way to become more digitally resilient, but 70% think HMRC should provide specific MTD training.

However, from the Genesis Senate and from working group discussions, conducted between March and June, we draw the following, often more positive observations, particularly where participants had seen hands-on opportunities developed:

- Concerns about MTD by sector do not always correspond with the reflections of individuals who have automated their accounting with relatively simple accounting packages. Those who have used online accounting for personal finances are more positive. For instance, several focus group discussions were summed up by Genesis chair John May thus, “Digitalisation of finance can cut the time SME clients spend on tax management down by over 50% and, if the data going in is accurate, with a big reduction in risk. Modern on-line accounting systems are increasingly easy to use, without requirements for much more than basic IT literacy”
- Too many new employees arrive without basic skills in IT; in many cases qualifications are less important than basic competences for IT orientated business skills required for day-to-day processes. There is a digital skills deficit in much of the SME sector. However, there are a range of more immediate solutions available ranging from easy use software to relatively lightweight digital education
- Concerns from the British Chambers of Commerce about the limited depth of support for digital tax conversion from HMRC reflect the real experience of SMEs
- Orchestrated effort by trade associations can begin to move a sub sector towards digital engagement.



4. Digital Skills Deficit

At a more general level, almost all Genesis stakeholders recognised the continuing threat of the UK digital skills deficit and which MTD continues to illustrate. The 2017 Lloyds Bank Digital Skills Index suggest that 1.6 million SMEs and 100,000 charities lack digital basicsⁱⁱⁱ. In 2015 the House of Lords Digital Skills Committee^{iv} defined digital skills as without a single definition but including:

“[A] general ability to use existing computers and digital devices to digital services, “digital authoring skills” such as coding and software engineering, and the ability to critically evaluate media and to make informed choices about content and information—
“to navigate knowingly through the negative and positive elements of online activity and make informed choices about the content and services they use”.



Observed - A respondent in the food and farming sector observed, “already a proportion of market traders make most of their sales on line, using their market pitches as destinations for buyers to understand their produce, this trend is likely to continue, traders are, by their nature fast on their feet. If making tax Digital is easy, many more will follow; make it difficult it will be a deterrent.

Annex 1 explores the digital skills deficit in more detail. Those weaknesses in digital skills could hold back MTD even in VAT registered entities, many of which continue to use manual systems to extract data to submit to HMRC online and where moving to an MTD compatible software approach will be seen daunting by the digital tail.

HMRC needs to be certain that introducing MTD for VAT registered entities directly after Brexit will be achievable for the tail as well as for more digitally aware businesses.

Case study – A respondent from the food and farming sector, “The skills that make a food producer don’t necessarily align with IT, although we often have a range of technical and rural engineering skills. Many businesses are registered for VAT. A few MTD challenges and failures will severely dent confidence. There needs to be a focus from HMRC to ensure direct support or support through software or accounting partners with the provision of easy to use software and the right advice”.

The Lloyds digital skills index research points to the need for an incremental approach to bring successive individual digital skills to SMEs; so providing basic IT skills building blocks across the SME workforce. In turn this will make higher skills more easily attainable. Genesis endorses the Lloyds Index incremental approach

from direct day to day learning experience in the business workplace. MTD is just such a building block to lever other digital skills into the workplace.

5. Recommendations

Genesis's recommendations were developed from our survey evidence and contributions from the Genesis Senate and focus groups point to both sets of short term actions and the continued progress or revival of longer term digital initiatives.

5.1. Securing the launch of MTD – short term

The MTD Timetable

HMRC should use the delayed roll-out of MTD for VAT registered entities to focus their attention on ensuring all small businesses above the VAT threshold are aware and ready for MTD. HMRC should adopt a clear communication strategy to encourage as many businesses as possible to adopt the appropriate systems and software to be MTD compliant at the earliest opportunity. This approach should then be extended to the wider SME community which should be encouraged to make the same journey. There is also space for pilot programmes, which give a greater licence to test and sometimes to fail and iron problems out in a geographic area or perhaps a trade association or sector representative.

There is one caveat which requires rapid resolution. SMEs are still in a situation of uncertainty if they are potentially directly affected by Brexit, whether they import or export or are part of supply chains. Without clarity, SMEs do not know what management and IT resources they will need to allocate to Brexit impacts on their businesses.

Support for the digital tail

When circa 40% of businesses are not aware of MTD, achieving change in awareness is unlikely to be achieved by HMRC alone. The focus should be on involving the accountancy and bookkeeping professions and accounting software providers to develop easy tools to introduce the necessary digital skills and software. This would be credible within the SME community. Where SMEs have a professional adviser, as VAT registered firms tend to, accountants tend to be the first point of reference^v. Genesis survey and focus group work suggested that software providers with a reputable brand can also be good points of entry, particularly working with the accounting and bookkeeping professions. Working through trade and professional associations more assertively will also raise the profile of MTD and highlight the avenues where SMEs can go to for help. Change may be attainable in a relatively short timescale.

Outside of VAT registered businesses, the impact of external advisers in the SME community is patchier. SMEs may limit contact to compliance, budget management and will have their own comfort zones of privacy and control. Informal non-business channels may also matter more^{vi}, forgetting the adage “if you think paid for advice is expensive, try paying the bill from free advice”. The digital support for this real digital tail, which may include many good and successful businesses, is down to a longer-term combination of trade associations, professional advisers, market penetration by software advisers and providers and continuing digital literacy amongst those coming into the workforce or retraining. Being able to introduce MTD credibly to this broader SME group is a matter of market testing. Timetables should work from the basis of that market testing and be evidenced-based, rather than imposed.

In the autumn 2017 budget, the Chancellor announced a fund of £64 million to develop a new National Retraining Partnership; in July £5 million was committed to a pilot scheme in the West Midlands to drive adult learning and retraining, with a strong digital and online focus. It seems to Genesis that this scheme should be targeted very much towards the digital skills gap and tied to the launch of MTD both at a realistic pilot and national level, in partnership with accounting, bookkeeping professionals and the software sector.

What HMRC can do

Work carried out to assess the HMRC digital pilot scheme in 2016 demonstrated that digital ambassadors at HMRC could be a positive force for change^{vii}. Yet SMEs and their Associations are not seeing active digital ambassadorship presently. This programme should be reinvigorated, when it reaches out effectively, it can be one of the most effective forces for change, particularly working alongside finance and software professional and trade associations. In the short term, collaboration like this is one of the most effective way to ensure that MTD is successful. In the longer term it can contribute significantly towards shortening the digital tail and encouraging it to upskill. Every SME engages with HMRC, other forms of external engagement whether the trade association, professional adviser or business club are less.

The Software Kitemark

SMEs need strong assurance about the software packages they will be using for MTD. For general accounting purposes, SMEs tend to rely on a range of known software package brands, even at the medium sized business end. For instance, as reported by Kingston Smith when they surveyed medium sized media businesses last year^{viii}. This picture is though evolving as medium-sized businesses see cloud accounting as more of an opportunity, thus making the market more fluid. However, previously HMRC have avoided endorsing or kitemarking software packages that can handle MTD. Genesis would suggest this position changes. Whilst primary responsibility for the installation of a software package sits with the purchaser and the software business, within that framework HMRC should be issuing a set of kitemark’s pointing out which packages can do the job; this does not mean kitemarking the capacity

of the business to manage the software. Part of that kitemarking should be an assessment that the software business is providing adequate channels to support, either directly or through external relationships.

Quick wins

Introducing MTD for large sectors of the business community universally, might be better preceded by a rolling pilot approach. For instance, the HMRC digital inclusion pilots focused on areas with lower digital literacy, fitting resources to the number of businesses involved, apparently with considerable success. This trial and error approach also provide ammunition through trade body media to show the programme can work, with demonstrable wins; it also excuses some failures as a part of the trial and error way forward.

5.2. In the longer term

The House of Commons Science and Technology Committee has been one of many expert voices pointing out how quickly the UK needs to move to close its digital knowledge deficit ^{ix}. It is not that the UK lags in many of these areas, the challenge is rather how quickly change is happening. The IMD digital competitiveness rankings for 2017 showed the UK 19th out of 63 worldwide, dropping a place down the table rather than up^x. In Europe, Switzerland, the Netherlands, Ireland Denmark, Luxembourg, Sweden, Norway, Germany and Finland are all ahead of us, but so too is mainland China and Qatar.

It is not the place of this paper to set out the full range of educational and cultural policy proposals that need to be implemented in order to achieve digital advantage for our SMEs. However, it and Genesis are placed to urge that from digital apprenticeships, through two workplace training and then on to early school-age engagement focusing on skills in IT, change must happen.

The UK continues to have major issues over productivity. Whilst many small lifestyle businesses will continue to provide an effective and rewarding living for their owners, any business involved in trade or complex processes, yet alone creative business or the businesses of tomorrow need that full range of skills, which Genesis members tell us new employees often do not have. At the very least awareness of digital apprenticeships should be a focus, likewise of sub-apprenticeship qualifications focussed on specific workspace skills. The development of the National Retraining Scheme is perhaps *the* opportunity for SMEs and other education stakeholders to fill the digital and other skills deficits; Government, the SME community and educators should seize it.

Appendix I – More Background on the UK digital skills deficit

The Value of Digital Skills

From Sept 2015 to April HMRC ran a digital inclusion pilot^{xi}, managed by the Tinder Foundation, to train individuals to access HMRC on line and to develop a core of digital ambassadors at HMRC. The focus was on socially and digitally excluded individuals.

The background was the independent research report commissioned from Centre for Economics and Business Research (CEBR)^{xii} by the Tinder Foundation and Go ON UK found that if support of the type delivered through the UK online centre network was provided to ensure all UK citizens had basic digital skills, the economic benefits to individuals and society (including increased productivity) would contribute over £14 billion to the UK economy by 2025. Following this, a second independent study, led by Just Economics calculated the SROI (Social Return on Investment) of the UK online centre model, producing an SROI of 1:5 - ie. for every £1 invested, there is a positive return of £5.

Separating out just the positive return for Government, the SROI is 1:1.5. This means that for every £1 HMRC invests in the training programme, the Government generates £1.50 in positive value. For the HMRC Digital Inclusion Pilot, this equates to a £680,000 investment generating a £1,020,000 return in positive value.

The Lloyds TSB Digital Index ^{xiii} suggest that SMEs with a high digital capacity two and half times more likely to have an increase in turnover. For charities, active use of digital media leads to a 51% increase in donations. Highly digital SMEs are five times more likely to the cost savings from being online and can save 20% of their working with the time efficiencies. Other success factors include greater customer engagement, marketing effectiveness and geographic coverage. SMEs that see growth as important are over 40% more likely to be investing digital skills.

The Corresponding Deficit

The Federation of Small Businesses, representing SMEs across the small business sector, balancing the Genesis focus on separate sectors to trade associations, warned in December 2017 that UK productivity will continue to stall unless action is taken to tackle the digital skills deficit^{xiv}.

The FSB discovered that over a quarter of business owners in England lack confidence in their basic digital skills. This reflects Genesis findings too. More than 20% of SME owners believe a lack of basic digital skills among their staff is holding them back from increasing digital activity and competitiveness. For London, joint research from the London Chambers of Commerce and London councils, has pointed to many of the same weaknesses only recently.^{xv} FSB demonstrated that 30% of English SMEs have found challenges finding employees with the right skills this year.

The FSB points to the opportunities offered by the National Retraining Scheme, announced in the Budget to boost digital capability, is designed with them in mind. Yet, 25 per cent of small firms do not consider digital skills to be important to the growth of their business. One of the key reasons MTD needs to work is to demonstrate the benefits of digital to these firms.

The British Chambers of Commerce presented a similar picture earlier this summer ^{xvi}. Their research published in June demonstrated that 10 months ahead of the introduction of MTD for VAT registered businesses, 24% had never even heard of MTD. On the other hand, only 10% of firms knew “a lot” about the switch to digital tax, with 66% of businesses knowing only by name or just some details.

Particularly concerning, 60% of businesses in the British Chambers of commerce sample gave HMRC a rating of three or less out five when it came to help and support. Of the 76% of firms who were very or had some awareness of MTD, just 6% had contacted HMRC for advice or looked to online services about it. 51% are disgusted with their accountant.

The House of Commons Science and Technology Committee in its 2016 report made the extensive recommendations to close the digital skills gap, based on the educational foundations offered by the government’s new world leading and potentially transformational computing curriculum. However, it noted, that the UK needs skills in areas such as cyber security, big data, the Internet of things, mobile technology and e-commerce introduced to the workforce and in workforce training now.

More generally, background societal research data suggest that 11 ½ million people lack one or more basic digital skills^{xvii}. The latest Tech Talent^{xviii} report shows that just under 10% of the U.K.’s 23 million LinkedIn members have tech skills, with great regional disparity – 30% in London, whilst only 8% in the North West and 3% in the north-east. The government’s new Digital Skills Partnership^{xix} established in November 2017 is intended to be part of the answer to improve coherence of digital skill provision at national and local level. The success of the Digital Skills Partnership in establishing local networks will be crucial both to the short-term introduction of program such as MTD and to long-term digital literacy.

Appendix 2 – The Genesis MTD project – Survey findings

117 Genesis organisations and stakeholders were invited to take part, 35 did so, with input ranging from director level discussion to surveys of membership. This is a community of over ¼ of a million businesses. In addition, the major issues were discussed at the Genesis Senate in March 2018 and through a series of focus group and Genesis board member discussions leading into June 2018.

11 questions were posed; as expected Genesis respondents are primarily self-employed or at the small end of the SME sector, although this was not exclusively so.

Q1: About you - How many people work in your business

ANSWER CHOICES	RESPONSES
self-employed	37.14%
0-5	37.14%
5-20	17.14%
20-100	8.57%
100 plus	5.71%
Total Respondents: 35	

Q2: Do you or your staff manage your own financial accounts and tax records, or do you outsource to an external accountant or bookkeeper?

ANSWER CHOICES	RESPONSES
Manage own financial records and tax matters	55.88% 19
Outsource all financial and tax record keeping to external accountant or bookkeeper	23.53% 8
Keep manual or spreadsheet records which an accountant or bookkeeper then pulls together for tax	23.53% 8
Total Respondents: 34	

Q3: Are you aware of HMRC's Making Tax Digital (MTD) initiative, to become one of the most digitally advanced tax administrations in the world

ANSWER CHOICES	RESPONSES
Yes	58.82% 20
No	41.18% 14
Total Respondents: 34	

Q4: If you were aware of Making Tax Digital - How did you hear about it? Please tick all that apply

ANSWER CHOICES	RESPONSES	
Adviser eg accountant	20.69%	6
Via a trade body communication	24.14%	7
Told by a contact	6.90%	2
Read a news story on line or on paper	27.59%	8
HMRC document	13.79%	4
Other	24.14%	7
Total Respondents: 29		

Q5: Did you know that from April 2019, all VAT-registered businesses with turnover above the £85,000 VAT threshold must keep their business records digitally and submit their VAT returns to HMRC using MTD-compliant third-party software?

ANSWER CHOICES	RESPONSES	
Yes	60.61%	20
No	39.39%	13
Total Respondents: 33		

Q6: Do you already use accounting software to keep digital records of your business finances?

ANSWER CHOICES	RESPONSES	
Yes	71.88%	23
No	28.13%	9
Total Respondents: 32		

Q7: How will you choose software to keep your digital records (please rate any you will use in order of priority)

	1	2	3	4	5	TOTAL	SCORE
Recommendation by others	31.58% 6	21.05% 4	26.32% 5	15.79% 3	5.26% 1	19	3.58
Research you have carried out	15.00% 3	35.00% 7	20.00% 4	30.00% 6	0.00% 0	20	3.35
Use a software provider I already know	50.00% 11	4.55% 1	31.82% 7	9.09% 2	4.55% 1	22	3.86
Refer to GOV.uk website	22.22% 4	38.89% 7	11.11% 2	16.67% 3	11.11% 2	18	3.44
Other	10.00% 1	0.00% 0	10.00% 1	0.00% 0	80.00% 8	10	1.60

Q8: What support do you think you will need to make the change from paper to digital? (tick all that apply)

ANSWER CHOICES	RESPONSES
Training - webinar or online service	25.81% 8
Training - face to face	6.45% 2
Advice from external accountant/bookkeeper	58.06% 18
Support and advice from software supplier	35.48% 11
Recruit suitably qualified new member to staff	0.00% 0
Telephone helpline or email chat facility	32.26% 10
We have sufficient experience in house already	32.26% 10
Other (please specify)	0.00% 0
Total Respondents: 31	

Q9: Who do you think should provide the training, advice and support in question 8, please rank any you might use in order of preference

	1	2	3	4	TOTAL	SCORE
HMRC	68.00% 17	4.00% 1	16.00% 4	12.00% 3	25	3.28
An accountant or financial adviser	25.00% 6	41.67% 10	25.00% 6	8.33% 2	24	2.83
Software company	15.00% 3	40.00% 8	40.00% 8	5.00% 1	20	2.65
Commercial training business	5.88% 1	17.65% 3	5.88% 1	70.59% 12	17	1.59

Q10: What might be the advantages of going digital for tax (tick all that apply)

ANSWER CHOICES	RESPONSES
It will reduce bureaucratic burdens	31.03% 9
It could save money	24.14% 7
It could save time	48.28% 14
It could allow quick problem solving with HMRC	37.93% 11
It could simplify tax payment and repayment	55.17% 16
Other (please specify)	20.69% 6
Total Respondents: 29	

Q11: What might be the disadvantages of going digital for tax (tick all that apply)

ANSWER CHOICES	RESPONSES
It will impose bureaucratic burdens	56.67% 17
It will cost more	50.00% 15
It will take up more time	43.33% 13
HMRC will not administer it fairly	40.00% 12
Other (please specify)	36.67% 11
Total Respondents: 30	

References

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The Organisation for Economic Cooperation and Development operates extensive programmes in the area of taxation. Once these are primarily been focused on closing the tax deficit between what is due and what is collected, there has also been a strong focus on tax authorities managing effective, transparent and citizen friendly tax collection.
- ⁱⁱ Digital Skills Crisis, House of Commons, Science and Technology Committee, Second Report of Session 2016-17
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- ^v for instance, the International Federation of Accountants conducted a global survey in 2016 <https://www.ifac.org/news-events/2016-09/accountants-remain-most-trusted-advisor-engine-room-global-growth>
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