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**A Critical Analysis of the Preparations for (and
Perceptions of) Making Tax Digital in SMEs and
Accounting Practices in the Swansea Area**



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**Dissertation submitted as part of the requirements for the
award BA (Hons) Accounting**

UWTSD SWANSEA

2019

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This work has not previously been accepted in substance for any degree and is not being concurrently submitted in candidature for any degree.

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Abstract

Recent advancements in the capabilities of data transmission has led to an increasing influence of Information Technology within the modern workplace. Making Tax Digital (MTD) is a new tax digitalisation initiative currently being implemented by Her Majesty's Revenue and Customs (HMRC), the tax authority in the UK. MTD has been devised by HMRC to address lack of compliance which is a prominent issue amongst Small to Medium sized Enterprises (SMEs). Its main aims are to boost compliance figures, provide an intuitive and user-friendly platform and to provide a streamlined, efficient and transparent tax payment service.

SMEs and accounting practices have a considerable stake in implementation of the 'Making Tax Digital' (MTD) initiative; the rushed implementation of MTD, along with the paucity of information and resources provided by HMRC can result a number of issues for each, most notably high initial and training costs for SMEs along with a heavily increased workload for accountants. The purpose of this dissertation is to conduct research into the preparations for MTD, as well as the perceived effects of the implementation of MTD on accountants and SMEs alike. The research will concentrate on the adverse side effects of this initiative and will also provide recommendations to HMRC and accountancy practices to deal with the issues efficiently.

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1.0. Introduction

This dissertation aims to critically analyse rationale of the implementation Making Tax Digital (MTD). As this is a new regulation that has been recently implemented, there is an air of uncertainty to what effects MTD may have on accounting firms and SMEs. Information provided by HMRC and research carried out on MTD has provided some background to the topic. Despite this, there is lack of research carried out to understand the rationale behind MTD. This dissertation will therefore look to fulfil this objective by carrying out primary and secondary research.

1.1. Background

According to HMRC (2018), the introduction of MTD is an essential step in ensuring taxes are submitted and handled correctly. Furthermore, the main aim of this new system is to be the most advanced in tax administration.

The new taxation regulation to be implemented is considered a major upgrade to the current tax system; it will essentially modernize the way in which tax is submitted and end the use of the self-assessment return. The main reason for the employment of this new regulation is efficiency; it will allow taxpayers to submit their taxes via a quick and easy digital platform, while HMRC will receive automatic reports with which to calculate tax receipts (Houlder, 2017). This will therefore reduce costs for both the taxpayer and HMRC as there is much less administration involved (Thomson Reuters, 2018).

Despite the advantages that come with implementation of MTD, there are some issues with the timeframe of its adoption. According to the Chartered Institute of Taxation (2018), the time frame provided for MTD to be fully operational is very challenging; this is due to the software trials only being available until recently. This will only allow for a short period of training and testing times; limiting the preparation time for such a complicated process could leave SMEs and accounting practices struggling to keep up with the increased workload.

1.2. Rationale

According to Thomas-Bryant (2018), the implications of the introduction of MTD will have a significant effect on accountants. Wrightwhyte (2018) notes that many accountants are not ready to advise their clients regarding this change, nor do they even fully understand the new system.

There is a wealth of literature on what MTD is and who must abide by this new law, however there is a lack of information regarding the rationale behind this scheme and the potential issues accounting firms and SMEs have regarding preparation for MTD. This research will therefore look to into such issues regarding for MTD as well as perceptions of the preparatory work involved in its implementation.

The lack of literature as well as the lack of understanding of the topic is the main motivation for carrying out this research. The results may also prove useful to SMEs and accounting firms.

1.3. Aims and Objectives

- To critically analyse the rationale for 'Making Tax Digital' (MTD) and the effect it has on accountants and small to medium enterprises (SMEs) by way of a literature review.
- To evaluate Accountants' and SMEs perceptions of the preparatory work required for the implementation of MTD.
- To provide recommendations for HMRC and professional practices to assist in compliance of MTD.

To achieve these objectives, a literature review will be undertaken to analyse preparations for (and perceptions of) MTD. A methodology in Chapter 3 shall justify the research method and questionnaires; the results of those questionnaires will be displayed and discussed in Chapter 4, while Chapter 5 will seek to complete the objectives using information gleaned from primary and secondary research.

2.0. Literature Review

The purpose of this literature review is to analyse the preparations for HMRC's Making Tax Digital (MTD) initiative that was announced in 2016. It will look to ascertain the positive and negative pressures on small to medium sized enterprises (SMEs) that are associated with MTD compliance, while also analysing the effect MTD has on the relationship SMEs have with their agents. It will also seek to determine whether MTD will close the tax gap as HMRC expects.

2.1. HMRC's rationale and requirements for MTD

HMRC (2018) describes the MTD initiative as a digital tax filing system that will be implemented by the government. Its main purpose is to simplify the filing of taxes for individuals and companies, ultimately creating a more efficient system. The Guardian (2019) argues that the conduct of digital companies like Amazon and Google has forced the hand of tax authorities, while it also poses the problem that other companies may follow their lead if they are given leeway. This strengthens the case for MTD, as it is imperative tax authorities retain control over tax collection processes; the method pursued in previous years simply has not worked.

From April 2019, all businesses that have a turnover above the VAT threshold of £85,000 will have to submit their returns their returns digitally in accordance with MTD. Most businesses already file their returns electronically; HMRC (2018) confirms that 92.8% of tax returns have been submitted online.

MTD is a sequel to the obligatory measure of digital filing implemented by HMRC in 2011. This filing system already stipulated the electronic submission of statutory accounts to HMRC and annual returns to Companies House (Alkhatib et. al, 2017).

Engelschalk (2000) claims that the development of a web-based filing system improves communication and enhances the public image of the Revenue Administration. Ultimately, MTD allows access to complete and relevant information on a regular basis for HMRC, a SME and their agent.

2.2. Rationale for MTD

Al Karaawy (2018) discusses about HMRC tax regulations and how they are considered vague by many taxpayers; MTD implementation will allow for more clarity and transparency in the payment of tax. Olsen *et al.* (2018) also note that tax regulations are unnecessarily complex. An automated system would simplify the process which would be beneficial to SMEs who may be short on time and money.

The importance of transparency when paying tax cannot be underestimated. Transparency from tax authorities can have significant knock-on effects; Khadjavi (2014) and Olsen *et al.* (2018) state that emotions like greed, fear, and trust clearly play a major role in the payment of tax, especially in SMEs. Jimenez and Iyer (2016) note that tax authorities assume that taxpayers are honest while taxpayers assume that tax authorities are fair and impartial. If the taxpayer perceives that the system is treating them unfairly (or the government misspends taxes) it leads to increased probability of evasion; full transparency from tax authorities instead leads to an increase in tax receipts.

Despite the popularity of online tax filing, the MTD regulation will be implementing some further changes that are relatively substantial compared to the system that is currently in place (Downing, 2018). According to Massie (2018), one of the main changes will be the termination of the government gateway portal, which is currently being used to submit tax filings. Third party software will be used to fill this void and will result in a more streamlined system that can be accessed very easily (Massie, 2018). Houlder (2017) notes his belief that automatic reporting of VAT through MTD will save SMEs a considerable amount of time and money.

However, there is considerable evidence that Houlder and Massie have not taken into account the likelihood of high financial and training costs, which is discussed on the next page. It is unknown whether savings made by SMEs may offset some of the increased costs incurred by rushing to become MTD compliant; as of yet, there are no solid estimates for the time it would take to claw back the initial cost of implementation, as estimates of initial cost and savings vary widely. In addition, automatic reporting could potentially put certain SMEs out of business; as HMRC calculates a sale is made when the customer places the order, any SME that is paid months after the order is placed will be subject to taxation on money not yet earned. This is potentially disastrous in those SMEs have little or no cash reserves.

Once MTD is implemented fully, SME owners will be able to know their taxation requirements in real time (Al Karaawy, 2018). As a result, this can ensure the accuracy of their future reporting. Collis et al. (2018) state that a digital filing system allows for companies to send one data set to HMRC rather than many separate data sets to different departments as was done previously.

An online survey of 343 ACCA members undertaken by Alkhatib et al (2018), found that there was a significant positive association between digital reporting and benefits to filers; the main benefits quoted were the convenience of an around the clock facility (89% agreed) and the speed of online filing (82%).

2.3. Potential issues raised by MTD implementation

2.3.1. Issues with preparation, compliance and costs

There seems to be a very strong case for the argument that SMEs are at significant disadvantage when preparing for MTD in comparison to larger companies. Both Dunne *et al.* (2009) and Alkhatib *et al.* (2017) state that XBRL tagging (the required format for MTD reporting) itself is a very complex process, which is likely to have a negative influence on its adoption. Walker *et al.* (2007) state that small businesses generally have less time to spare, while the price of training itself is also higher in smaller businesses. This equates to a situation where smaller SMEs will have to juggle tax compliance with other vital functions in order to survive.

ICAEW (2019) notes that the cost of implementation of digital tax reporting is thought to be very high for business in general. Al Karaawy (2018) notes that the Federation of Small Businesses (FSB) and the Centre for Equality Research in Business (CERB) claim that MTD implementation will impose heavy transition costs for small businesses, especially those who must purchase equipment in order to be MTD compliant.

Schwanke (2016) notes a major worry for businesses implementing MTD is that it leaves them more vulnerable to data protection breaches. while also making them a more viable target for such breaches as potential hackers would know that XBRL data is always available and writable, which gives rise to issues with security; previous correct data can be overwritten – either by accident or maliciously. SMEs are particularly at risk of such breaches due the high cost of full cybersecurity coverage.

In addition, Hamlett (2015) states that data accessed before it is found to be incorrect could mislead decision makers and cause significant problems within the company. The ICAEW (2019) also states that most information breaches are as a result of human error; SMEs are likely to be disproportionately affected by this as they will generally shorter on time and have less skilled employees.

In a survey of SMEs in the UK, Collis et al. (2018) found that approximately half of the respondents considered the cost of digital filing to be high. However, there are mixed views on set up and/or running costs and whether it is more difficult to file digitally or in paper format.

2.3.2. The hasty implementation of MTD

The timeline for implementation of MTD in the UK is thought to be too aggressive, as the UK tax system is among the most complex in the world and attempt to simplify it so quickly may cause some issues. MTD was introduced in 2016 to be phased in by April 2019. There are arguments to suggest that MTD was introduced too quickly for business and accountants alike to become familiarised with the filing system. Wrightwhyte (2018) warns that despite there being a limited amount of time left until the MTD implementation, many accountants aren't ready to advise their clients regarding this change, nor do they fully understand the new system.

Although the UK has allowed companies to make digital tax returns voluntarily in the run up to MTD implementation, it has made no such arrangement to test it properly. Examples where extensive testing of a system occurs is in Russia. Any changes to the tax filing system are piloted in a small area of the country before widespread propagation, mitigating issues with implementation (ICAEW, 2019). This damages the view that HMRC has taken measures to ensure SMEs are protected from the potential impact of MTD implementation.

There are other signs that point to potential negative effects of the hasty imposition of MTD on SMEs. Lloyds Bank (2018) found that while 99% of SMEs are connected online, only 19% can manage information digitally; as that is necessary in information transactions with their agent or accountant, this poses a serious issue. Additionally, a study by 150,000 SME clientele of UK200 Group (2017) stated that 65% of their clients do not use software for account management. The Association of Certified Chartered Accountants (ACCA) found that only 30,000 businesses at the time used software which appears to be capable of becoming compatible for the submission of quarterly reports (House of Commons Treasury Committee, 2017).

Further corroboration of the hasty implementation of MTD is by Rogers (2003) who states that MTD, as an innovation, requires time and exposure to gain popularity. As previously discussed in this review, HMRC have failed to raise awareness or culture interest in MTD; not providing free hardware and software to businesses is another factor.

2.3.3 Issues that would affect SMEs due to their lack of preparation

Previously, the taxpayer would have to make their tax return, then HMRC would check the data is correct by means of comparison with information from third parties such as employers. ICAEW (2019) states that under the new system, the third parties would provide information to HMRC, then HMRC would provide the taxpayer with an estimated return. This impacts SMEs greatly, as smaller businesses have less employees with the necessary expertise to ensure that HMRC have provided a correct estimate; this is compounded with the lack of preparation endemic in SMEs. Those with very little business or accounting expertise may even just accept the number quoted by HMRC rather than make the effort to ensure it is correct.

Although the new system may clarify HMRC regulations described as vague by Al Karaawy (2018), those with no expertise may struggle to apply those regulations to their tax bill provided by HMRC. The lack of time for preparation amplifies confusion caused by such regulations, while there is a likelihood of someone simply accepting their tax bill without ensuring its accuracy as a result of that confusion.

2.3.4 Issues that affect taxpayers and accountant's perception of HMRC/MTD

The increase in HMRC's powers as a tax authority have led to questions being asked by accountants on why quarterly reporting is deemed as necessary by HMRC and whether HMRC offers suitable justification for such a process to be necessary. The ACCA note:

"Under MTD, HMRC are proposing to reach into the inner workings of taxpaying businesses and force them to redesign the very profit making mechanism itself. HMRC are however not proposing to enquire into the interim reports which rely upon this level of detail, which begs the question of why the format is so important to HMRC if they are not proposing to interrogate that data themselves. If they are, then the powers regime will need updating to reflect that. If there is no intention for HMRC to interrogate the underlying data then it is hard to discern the rationale behind imposing that costly change on business." (ACCA, 2016).

It is not entirely clear whether the combination of quarterly reporting and a complete IT system connecting the SMEs to HMRC will be in the SMEs' best interest. Even if an independent body took control of the data, each SME's individual strategy and intent will be available to this body. This is dangerous for two reasons regarding the trust implications with HMRC discussed in 2.2 (Rationale for MTD); it increases the importance of trust in that paradigm as HMRC has bestowed far more authority upon itself than it has ever had, while the potential for mistrust of HMRC increases as a result of its amplified powers.

In addition, despite small business owners being promised to get the relevant MTD software for free by HMRC, HMRC instead changed tact as they expected free software to be released by other entities. Avalara launched a free add-in for Excel which allows for VAT reporting for MTD in October 2018 (White, 2018).

2.4. The Importance of SMEs

As tax digitalisation is likely to cause upheaval among small to medium size enterprises (SMEs), it is useful to consider SMEs in relevance to their contribution. SMEs are typically considered to be a very important part of the economy in almost all countries worldwide. Rhodes (2018) states that in the UK, 99% of all businesses are SMEs; there were 5.7 million SMEs in the UK in 2018. For comparison, roughly 60% of all business employees in the UK are employed by SMEs, while those SMEs made 52% of the total turnover made by all businesses in the UK (£1.99 trillion out of £3.86 trillion). This is illustrative of the importance of SMEs to the UK; they are involved in significant job creation and innovation while also heavily supporting the economy.

2.5. The effect of MTD on SMEs

As SMEs as so vital to the UK economy, proper implementation of tax digitalisation should have their interests in mind. Before the implementation of MTD, SMEs had to report their tax via self-assessment forms, within 10 months of the end of the applicable tax year (Hannam, 2017). As such, SME owners usually kept their tax records in a Microsoft Excel or similar spreadsheet program. Meall (2017) notes that in the UK, electronic filing of annual corporation tax returns has been mandatory for some years.

Under the new system, SMEs will now have to digitally file their financial statement using iXBRL software. The HMRC will then use that information to work out the tax bill before sending the tax bill back to the SME for them to ensure it is correct. HMRC are requiring quarterly reporting, which is especially impactful on SMEs as they are limited on resources.

2.6. MTD in relevance to SMEs and their relationship with accountancy firms

SMEs often rely on agents to ensure they are tax compliant. Therefore, the relationship SMEs have with their accountants will be a significant contributor to whether MTD is deemed a success or not. MTD may have another knock-on effect when considering the changes accountancy firms will have to make in the aftermath of MTD implementation. Meall (2017) quotes ACCA's head of taxation Chas Roy-Chowdhury, who when speaking to a UK government committee noted that due to quarterly reporting, businesses will require their accountant 5 times a year (instead of just once a year as they do now) increasing workload significantly. This may mean smaller accountancy firms will have to drop less lucrative clients. In the immediate aftermath of MTD implementation, the need for accountancy services will rise appreciably, which means the prices quoted by such firms may rise as a result. This will directly affect SMEs, who will generally be less lucrative clients than larger corporations; therefore, it will disproportionately affect smaller businesses with fewer resources.

There are also issues regarding clients' lack of preparation. Accountants have been warning about the problems stemming from MTD since 2016; in a survey by Thomson Reuters and AccountingWEB (AccountingWeb, 2016), it was found that;

- 69% were concerned about reliability of HMRC systems and data,
- 60% have clients who do not have electronic systems in place,
- 57% have clients who do not use computers or are digitally excluded,
- 57% think MTD timetable is not realistic,
- 54% believe their clients are not ready for digital reporting,
- 54% believe that compliance work will be more time-consuming,
- 49% believe the onus will be on them to keep clients compliant,
- 42% believe will not be able to charge for the additional work,
- 42% believe that MTD costs in the first 12 months will be no more than £250.

The conglomeration of these issues can cause serious strain on the already delicate relationship between SMEs and their accountants. The ICAEW (2019) discuss the notion that tax professionals will have to innovate and learn how to make use of the shift in focus. As the work focus of accountants shifts, so will the service they provide to SMEs. It will take some time and experience for agents to innovate to the point where they can provide a fully informed and developed advisory service, which means SMEs which hire accountants will not see the full benefit of the service provided by agents for some time.

2.7. Implementation of tax digitalisation in other countries

There are similar concerns about the increased workload tax digitalisation represents in Singapore, where they are already in transition of moving away from paper filing methods. Some consider that there are rather unrealistic expectations of taxpayers and accountants; Meall (2017) notes that concerns were raised in the Parliament of Singapore that accountancy firms that exist as sole traders would struggle because of the changes, especially those who are older and therefore less technologically literate. By extension of that, accountancy firms in the UK may face similar problems, while sole traders who have to file their own returns (due to the lack of funds to hire an accountant) may expect to invest a considerable amount of time learning the new system.

ICAEW (2019) states that the Government of Australia began its 'Digital by Default' program to move taxpayers towards tax digitalisation. The ATO (Australian Taxation Office) estimates that 70% of taxpayers could use their online service to complete tax returns without any support from an agent.

Australia has similar issues to the UK in reference to tax digitalisation. It has a complicated tax deductions system, which means those without previous experience of the system can end up overpaying significantly. However, they have made significant progress in several areas relating to tax digitalisation, especially technological ways to ensure the security of taxpayers information.

Schwanke (2016) talks of these methods; they include two factor authentication when logging into accounts, (consisting of a username/password then a code sent to the taxpayer's phone) and experimenting with voice pattern recognition.

In Estonia, tax digitalization is already close to being complete. 98% of all tax declarations in Estonia are filed electronically, as well as 98% of all company tax declarations (E-Estonia, 2019). Meall (2017) states that those who live in remote areas with poor internet connectivity, as well as those in the older generation who are not technologically literate, are the only demographics holding back 100% implementation. ICAEW (2019) states that the average Estonian tax return takes roughly 5 minutes to complete, as the return is pre-filled by the government. Buhr *et al.* (2016) note that Estonians have been able to complete their tax declarations online and pay their tax by mobile phone since 2002. ICAEW (2019) quotes a report found that medium sized businesses in Estonia took just 50 hours a year to ensure they were tax compliant, in comparison to 240 hours a year on average. This is likely to be as a result of a very simple taxation system (Estonia only became independent in 1991) and the advanced state of its tax digitalisation program.

Rijswijk *et al.* (2018) and E-Estonia (2019) both bring up that Estonia protects its citizen's data in several ways; the first is by using KSI blockchain technology. A blockchain is a system of decentralized computer nodes that collectively run and maintain a shared, identical database, creating a public ledger like those used in cryptocurrencies like Bitcoin and Ethereum. This guarantees security by having a public database that is incredibly difficult to tamper with as blocks of transactions are cryptographically attached to the previous block, and all network nodes separately verify the authenticity of each transaction. Any deviations from the public ledger are detected and fixed easily.

ICAEW (2019) notes Estonia also uses an e-ID card system with two factor authentication to protect taxpayers, similarly to Australia. The UK should look to implement similar technologies in tandem with the implementation of MTD, as it would ensure the security of the data and protect against data being manipulated in the future; this is particularly important for SMEs who do not have the budget for advanced cybersecurity.

Finally, in Brazil, tax digitalisation is seen as necessary to combat widespread corruption and tax avoidance. Schwanke (2016) notes that as a result of tax digitalisation, the amount of tax collected by the Brazilian government has risen each year by more than 19%, however ICAEW (2019) notes tax audits have imposed penalties on taxpayers without giving them the chance to correct any inconsistencies.

Brazil's tax system, as in Australia and the UK, is very complex. ICAEW (2019) notes a report found that a medium sized company in Brazil would take 1,958 hours to ensure it is tax compliant, in comparison to 240 hours as a global average (and the 50 hours previously mentioned for Estonia). As the UK has a similarly convoluted tax system, UK based SMEs may find they spend considerably more time ensuring they are tax compliant. A replication of these statistics in the UK would no doubt be deemed as unacceptable; for comparison, an employee working 10 hours a day, 4 days a week for 50 weeks a year works 2000 hours. In a scenario where these numbers are replicated, a SME would require someone to work full-time on ensuring they are tax compliant. Smaller SMEs simply could not achieve tax compliance if they tried.

2.8. Conclusion

It looks like HMRC's 'Making Tax Digital' initiative will pose many problems to SMEs upon its implementation. The major factor which singles out susceptibility to the negative effects of MTD seems to be a lack of resources; the smaller the SME, the more likely they will struggle as a result of tax digitalisation. The imposition of quarterly reporting seems to have a significant knock on effect on SMEs, as it increases the workload of accountants which increases the cost of agents.

There are a fair amount of benefits provided to SMEs however which may balance out potential issues; in the long term it seems that SMEs stand to gain from an operational and strategic point of view, as they can make decisions made on up to date financial data rather than year old budgets. Many larger businesses have adopted Beyond Budgeting which provides similar benefits (less time doing budgeting, more information on how to plan strategically due to quarterly forecasting/reporting cycles

respectively); this demonstrates that the benefits offered by tax digitalisation are considerable.

Tax digitalisation drives in other countries have shown that MTD can potentially be a success; it however can equally be a disaster. Lessons must be learnt from other countries to ensure MTD implementation happens smoothly; worries about MTD being rushed out are yet to be allayed, while the security of taxpayers' data must be considered to be of paramount importance by tax authorities.

3.0. Methodology

This purpose of this chapter is to outline the research methodology used in this study to satisfy the objectives of the dissertation. This will include the data collection and analysis methods, as well as the overall research strategies and philosophies.

Research itself has a varying definition between scholars. It is defined rather simply by Saunders *et al.* (2012) as “something someone must undertake in order to find things out in a systematic way, thereby increasing their knowledge.” Collis and Hussey (2014) use the myriad of definitions available to crystallise the 3 major prerequisites of what makes research: that there is a process of inquiry/investigation, that it is systematic and methodical and that it increases knowledge.

3.1. The Research Onion

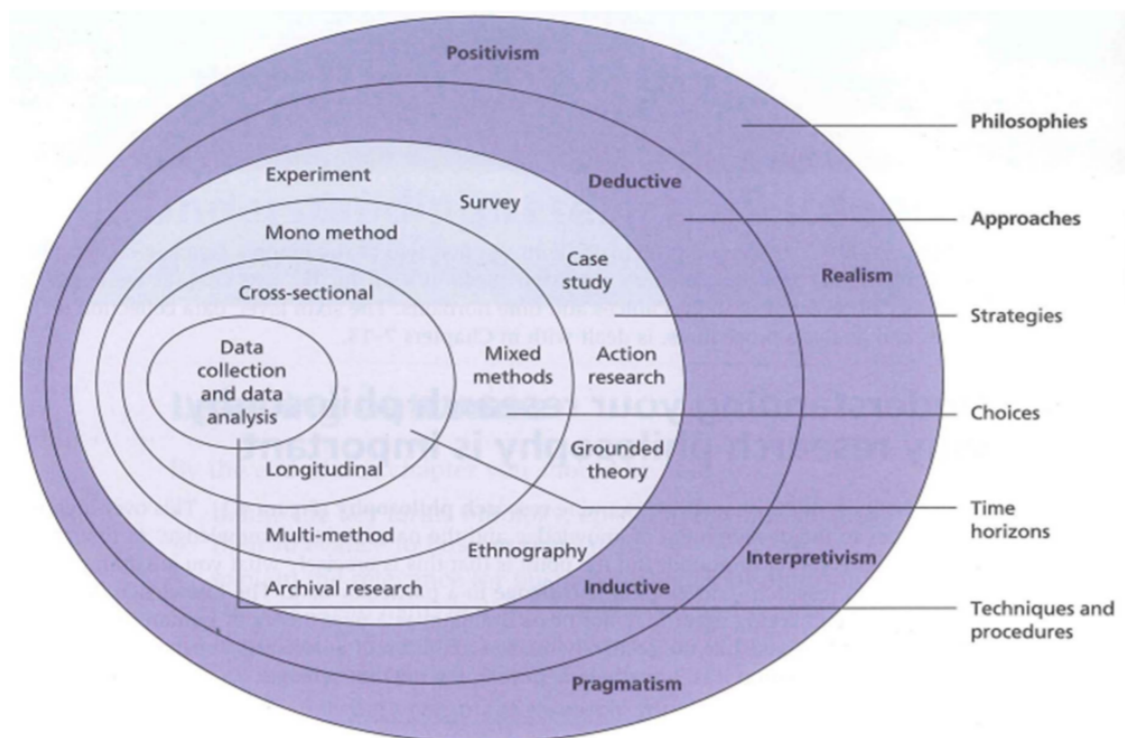


Figure 1: Research Onion (Saunders *et. al.*, 2012)

There are multiple ways in which someone could research a subject, each with their own benefits and drawbacks. A model which illustrates the wealth of options available to the researcher is known as the Research Onion. It was created by Saunders *et. al*, (2012) and is now widely used to formulate a research strategy for academic projects. As illustrated in figure 1, the Research Onion uses multiple layers in which one can select philosophies, approaches and strategies that are suitable for their realm of study. Following the Research Onion allows for progression of research by making it a single flowing process rather than simply gathering information on the subject, while it also provides a clear plan for the researcher to appropriate the correct philosophy/approach/strategy for their study. This chapter will further discuss the Research Onion's layers and how choosing the correct philosophy/approach can impact on the results of the study.

3.2. Philosophy

Saunders *et. al*, (2012) states that the two main schools of thought which direct research philosophy are positivism and interpretivism. The two are ideologically opposed to one another; positivism is rooted in the idea that societal pressures shape an individuals' views. Interpretivism rejects that, instead positing that people have their own separate view of the same subject, as an individual has his own objective reality. Positivists therefore prefer to use quantitative data to back up their hypotheses with data, while interpretivists prefer qualitative data to ascertain why people have their specific opinion (Saunders and Lewis, 2012).

Much of the data collected on the subject matter is qualitative in nature; however, some of the qualitative data from the questionnaires will be converted in quantitative data by statistical analysis using SPSS. As some hypotheses are to be tested and there will be quantitative data to analyse, it would be natural to use a primarily positivist philosophy. However, it can be argued that positivism and interpretivism are two extremes at each side of a spectrum and that dogmatically following either philosophy would negatively impact the results of a study. A positivist approach sacrifices validity for reliability, while an interpretivist approach sacrifices reliability for validity; another

argument against the positivist philosophy is that it preoccupies itself with fully rational criteria while ignoring less rational criteria that could have a similar impact (Collis and Hussey, 2014). As much of the data sets are based on opinion, a pragmatic approach which utilises both positivist and interpretivist viewpoints is required to fully understand the study matter while producing reliable and valid results. In addition, using both approaches in one study allows for the development of a more complete knowledge base with which to answer the research questions (Brierley, 2017).

3.3. Research Approach

Research can be approached from either an inductive or deductive angle. Inductive reasoning derives conclusions through observation, while deductive reasoning uses data to test a hypothesis that has been put forward - usually as a result of using information already available to the researcher (Zalaghi and Khazaei, 2016).

A deductive approach has been chosen for this study as it seeks to test hypotheses based on the 3 research objectives this dissertation aims to fulfil; such an approach is also useful when attempting to find correlation in-between primary research and previous studies (Wiles *et. al*, 2011). There is a wealth of information on tax digitalisation in other countries to be used as comparison; although MTD has not yet been implemented in the UK at the time of writing, accountancy firms have been preparing for tax digitalisation for many years. As a result, there are academic and professional opinions on tax digitalisation which can be further used to develop hypotheses and questions for questionnaires.

3.4. Research Strategy and Data Collection Methods

Saunders *et. al* (2012) state that there are 7 major research strategies as illustrated in figure 1. This study will seek to use primary research surveys (in the form of a questionnaire); two separate questionnaires are targeted at SME employees and accountants (which provide services as agents or as SME employees) respectively. This study will use a mixed-method triangulation design using questionnaires; use of qualitative and quantitative data will provide varied data to analyse, which suits the pragmatic research philosophy.

Valid and reliable results are representative of the views of the group being analysed; a sample must be a representative segment of a larger population (Bryman, 2012). Surveys generally contain large amounts of quantitative data once analysed; a large amount of data is collected from many respondents so that their responses can be collated, analysed and compared. As pragmatism is sought after to improve reliability and validity of results, a more positivist approach is used when analysing the results of the SPSS analysis of questionnaires and a more interpretivist approach is used when analysing the qualitative information from questionnaires (especially verbatim answers).

Questionnaires that were sent to SME employees and accountants primarily captured qualitative data, especially as they also allowed for some verbatim responses. Myers (2013) argues that the purpose of qualitative data is to aid researchers in understanding the social and cultural environments in which people live; it provides context to the actions carried out by a person in a given scenario. Qualitative research is the best choice when trying to understand the reasons behind the motivations and actions of a particular individual.

The main bulk of quantitative data will come from the analysis of questionnaire data through SPSS. The questionnaires were put online using Google Forms as to target a larger audience than by paper alone; a large sample size is paramount in gaining valid results.

3.5. Ethical considerations and Limitations

The major ethical consideration when conducting a study with many respondents is the confidentiality of those respondents (Cooper and Schindler, 2011). As such, respondents will participate completely anonymously; an age range is required instead of an exact number and the questionnaire does not ask the respondent their place of work. The respondent will not have to provide any identifying information apart from their age range. Data collected from the questionnaires will be only be handled by the researcher themselves, while the guidelines followed to ensure protection of data are set out in EU law under the GDPR (enshrined into UK law as the Data Protection Act 2018) and the UTWSD Ethics form which can be found in Appendix X. All respondents will be above the age of 18 and therefore will be able to provide consent for their data to be used further in this study.

In addition, the confidentiality of respondents is directly linked to the validity of the results of the questionnaires. Respondents to questionnaires can only provide honest answers if they know that their answers will not be linked back to them (Fox *et al.*, 2003) if they feel answers can be traced back, then they may withhold their real opinion to prevent their employer from obtaining that opinion and consequently taking retributive action as a result.

As this study is undertaken as an undergraduate dissertation, the lack of time and money available may limit the scope of the study. Although there are less issues than would arise with other studies of a similar nature (for example, there is no worry about finding a sample that is representative of a wide population in this study) such limitations on resources may have an impact on the reliability and validity of this study. As Swansea is a small city with few accountancy practices, there may not be enough data to be able to prove hypotheses using a 99% or 95% confidence interval. Interviews were to be held with accountants with a strong working knowledge of digital filing and tax digitalisation issues, however there was not enough time for these to be conducted.

3.6. Credibility of findings

The credibility of the findings of this study hinge on the reliability and validity of the results. Reliability is a measure of whether the results of the study can be repeated under the same conditions. Validity is concerned with the integrity of results themselves and whether the study was conducted in a way which produces the correct result (Bryman and Bell, 2011).

The use of a mixed method approach lessens the threat of unreliable or invalid findings as there will be different data sets to analyse separately. A rejection of a strict adherence to positivist or interpretivist philosophy allows for the researcher to strive for both reliability and validity without sacrificing the other (Collis and Hussey, 2014). Those invited to be respondents for questionnaires are related to the topic of study; those who were interviewed for the study have a strong working knowledge of 'Making Tax Digital' and what tax digitalisation entails, while also having experience in pre-MTD accountancy as a means of comparison to the status quo.

As the reliability of a study is based on whether it is repeatable, the findings of this study along with the resources used for questionnaires/interviews and the transcripts of the completed interviews will be available in their respective appendices. The questionnaires were sent out with the express purpose of gaining a large sample size to statistically analyse; with a large sample size, it is easier to gain statistically significant results which improves the validity of the results.

3.7 Questions for accountants and SMEs

This study wishes to ascertain whether there has been sufficient preparation for MTD within SMEs and accounting practices. This is particularly useful, as the research is being carried out in April 2019, at the earliest stage of full MTD implementation. This study also seeks to clarify the perceptions of MTD within accounting practices and SMEs; this also gives insight into views on HMRC's conduct in the run up to implementing MTD.

Such questions should be split into 3 rough sections in the accountant's questionnaire; the first should be ranges for age, time worked at SME/accounting practice and number of people employed at place of employment to ensure we have a representative sample. Next are questions on the perception of MTD; the literature review supports questions on perception of cost (high initial cost and potential long-term savings), the perception of the amount of training required and the perception of efficiency afforded by MTD implementation. Finally, it is expected that two final questions - on the perception of MTD impact on accountants' workload and on the perception of the potential impact of MTD on SMEs - will provide the best data to ascertain whether those who understand the MTD system believe MTD will cause the issues raised in the literature review.

The SME questionnaire shall follow a similar structure, without asking about perceptions of the impact of MTD on accountants (as they are not qualified). The 3 sections shall have ranges for age/time worked/employment metrics, questions on awareness and perception of MTD (as SME employees are far less likely to know about MTD than accountants) and finally perceptions of the potential impact of MTD on SMEs.

Question	Acceptable Answers	Related theory:
1) What age range do you belong to?	18-24, 25-34, 35-44, 45-54, 55-64, 65+, Prefer Not To Say	
2) How long has your accountancy practice been in existence?	1-2 Years, 2-3 Years, 3-5 Years, 5-10 Years, 10+ Years	
3) How many people are employed at your accountancy practice?	1 (Yourself), 2-5, 6-10, 11-25, 26-50, 51-100	
4) Do you agree that the implementation of Making Tax Digital will improve the tax collection process?	Strongly agree, Agree, Neutral, Disagree, Strongly Disagree	Al Karaawy (2018) and Houlder (2017)
5) Do you believe that Making Tax Digital will have the following effect on your	Strongly agree, Agree, Neutral, Disagree, Strongly Disagree	Al Kaarawy (2018) and ICAEW (2019)

accounting practice: a) Has a high initial cost?		
b) Is more efficient than a paper filing system?	Strongly agree, Agree, Neutral, Disagree, Strongly Disagree	Alkhatib, Collis, and Ojala (2017)
c) Will result in long-term cost savings?	Strongly agree, Agree, Neutral, Disagree, Strongly Disagree	
d) Will require a substantial amount of training?	Strongly agree, Agree, Neutral, Disagree, Strongly Disagree	Wrightwhyte (2018) and HMRC (2017)
6) Do you believe that Making Tax Digital: a) Will result in more visits from your clients?	Strongly agree, Agree, Neutral, Disagree, Strongly Disagree	Meall (2017)
b) Is being hastily implemented by HMRC?	Strongly agree, Agree, Neutral, Disagree, Strongly Disagree	Lloyds Bank (2018), UK200Group (2017), House of Commons Treasury Committee (2017), ICAEW (2019), Rogers (2003)
8) What do you believe are the main benefits and/or drawbacks of making tax digital?	Verbatim	

Survey on Making Tax Digital (SME's)

Question	Acceptable answers	Related Theory
1) What is your gender?	Female Male Prefer not to say	
2) What age range do you belong to?	18-24, 25-34, 35-44, 45-54, 55-64, 65+, Prefer Not To Say	
3) What is your role in the SME?	Verbatim	

4) How long has your SME been in existence?	Less than a year 1-2 years 2-3 years 3-5 years 5-10 years 10+ years	
5) How many people are employed at your SME?	1 (Yourself), 2-5, 6-10, 11-25, 26-50, 51-100	
6) How aware are you of HMRC's Making Tax Digital initiative?	Very Aware, Aware, Neutral, Unaware, Very Unaware	Rogers (2003)
7) Do you agree that the implementation of Making Tax Digital will improve the tax collection process?	Strongly agree, Agree, Neutral, Disagree, Strongly Disagree	Al Karaawy (2018) and Houlder (2017)
8) Do you have any experience with the following with regards to Tax Digitalisation? (If you answered 'No experience' please skip to question 10, check all that apply)	iXBRL Digital Filing No experience	Lloyds' Bank (2018), UK200Group (2017), House of Commons Treasury Committee (2017), ICAEW (2019), Rogers (2003)
10) Will the implementation of Making Tax Digital: a) Ensure quick and accurate reporting in the future?	Strongly agree, Agree, Neutral, Disagree, Strongly Disagree	Alkhatib, Collis, and Ojala (2017)
b) Create an unnecessary burden upon SMEs?	Strongly agree, Agree, Neutral, Disagree, Strongly Disagree	Al Kaarawy (2018) and ICAEW (2019)
11) What do you believe are the benefits and/or drawbacks of Making Tax Digital for your SME?	Verbatim	

4.0. Data Analysis

This chapter seeks to display the results of the statistical analysis of the questionnaire responses from both the accountants and the SMEs. Ultimately this chapter fulfils the second objective of the dissertation:

“To evaluate Accountants’ and SMEs perceptions of the preparatory work required for the implementation of MTD.”

The data gathered from the questionnaires was logged into a spreadsheet and analysed for frequencies and average Likert scores. There were additional SPSS analyses undertaken, the results of which will be placed in Appendix (X); although they hold relevance in confirming a normal distribution of responses, it does not aid in answering the second objective as outlined above.

4.1. Accountants

There was a total of 15 responses from accounting practices in the Swansea area. These have been analysed below:

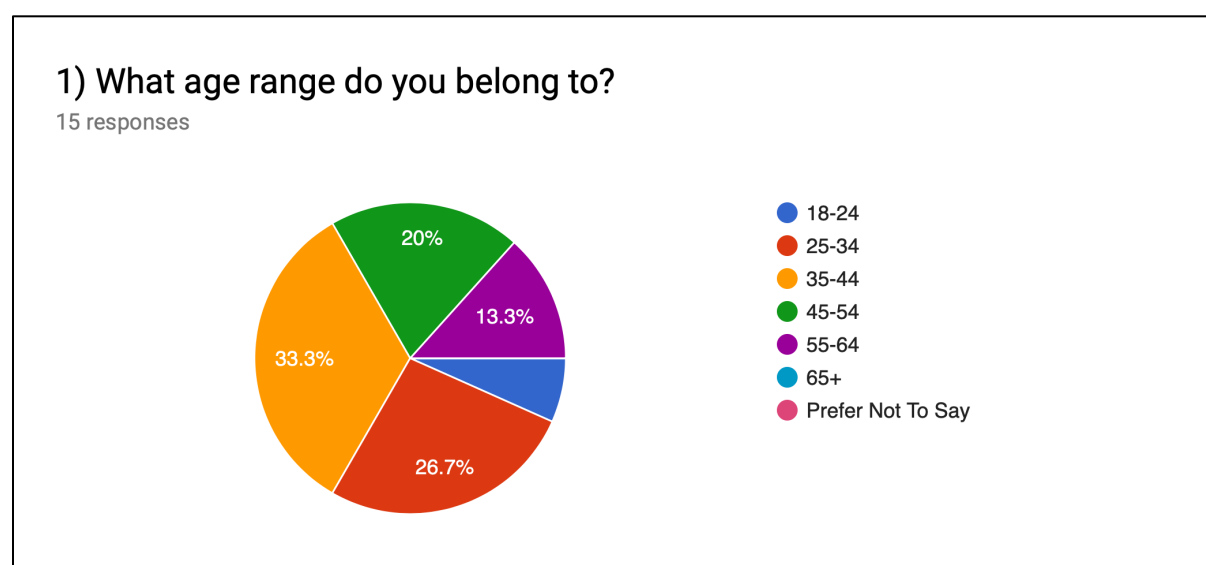


Figure 2: Chart Portraying Age Range of Accountants

Question 1 required the participants to identify what age range they belonged to. Respondents between 18-24 only accounted for 6.7% of the total responses. This was the smallest age group that was represented. 55-64 year olds were accounted for 13.3% of respondents. The other age ranges represented the majority of the responses varied from 20% to 33.3%. The 33.3% represented the largest group, which was 35-44 year olds.

SPSS analysis yielded a positive Shapiro-Wilk test for normality, which proves this is a representative sample of the population in respect to age.

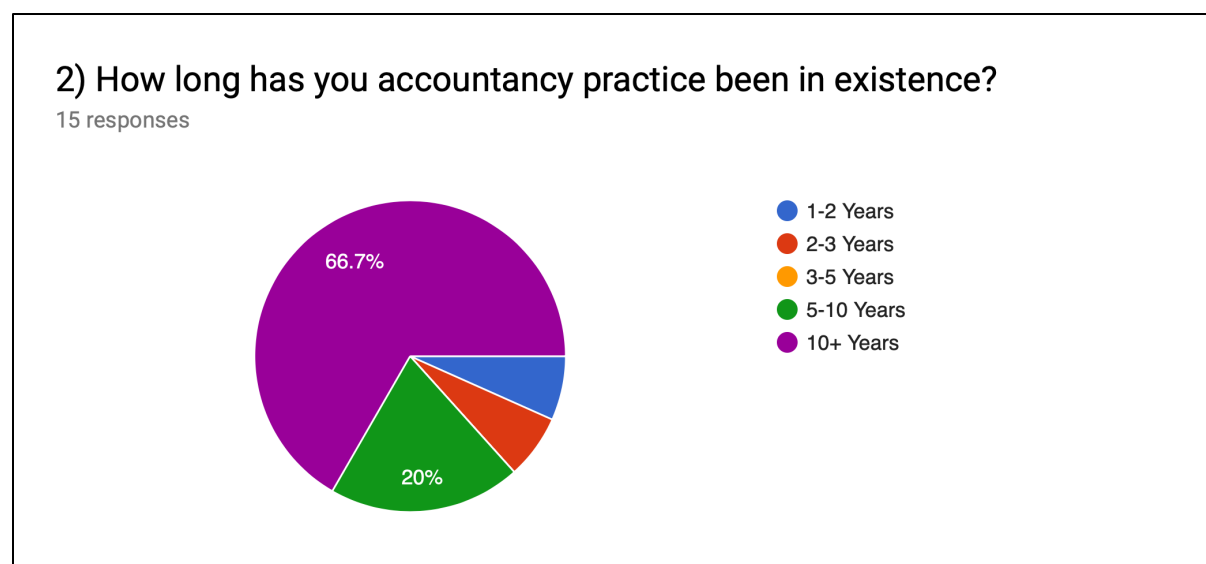


Figure 3: Chart Portraying the Age of Accountancy Practices

Question 2 required asked participants how long their accounts practice has been existence. It can be seen that the majority (66.7%) of responses were from accounting practices that were 10 years or older. There second largest group of respondents were accountancy practices that have been in existence for 5-10 years, the responses accounted for 20%. The smallest sample represented are accountancy practices what are between 1-2 and 2-3 years, these accounted for 6.7% each. There were no responses from accountancy practices that have been in existence for 3-5 years.

3) How many people are employed at your accountancy practice?

15 responses

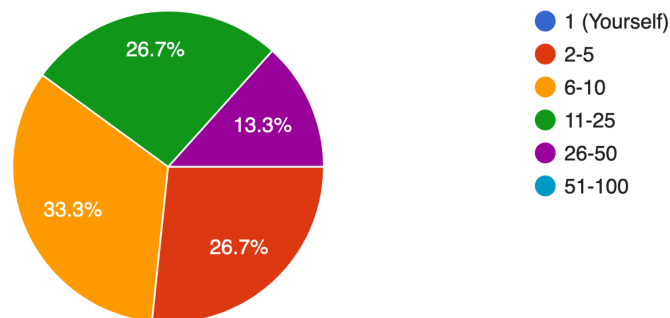


Figure 4: Chart Portraying Staff Numbers at Accountancy Practices

Question 3 looked to assess the size of the accountancy practices that were involved in completing the questionnaires. The majority (33%) responses were from accountancy practices that employed 6-10 members of staff. This was followed by the second largest ranges 2-5 and 11-25 members of staff, each of these ranges accounted for 26.7% of responses. The smallest sample was for the 26-50 range, this only accounted for 13.3% of the total responses. There were no responses from accountancy practices that employed 51-100 members of staff.

4) Do you agree that the implementation of Making Tax Digital will improve the tax collection process?

15 responses

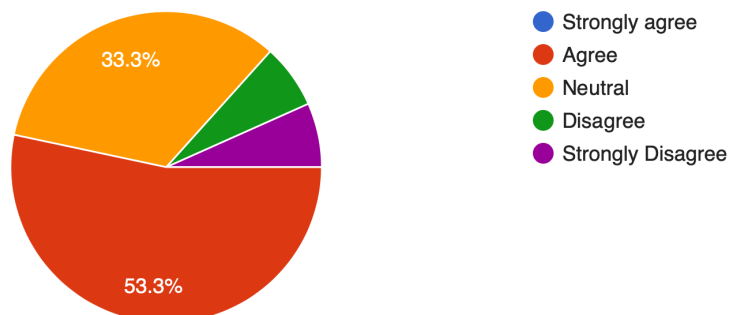


Figure 5: Chart Portraying Accountant's Views on the Improvement of the Tax Collection Process

In response to Question 4, which is arguably one of the more important questions put to the accountants, 53.3% of respondents replied that they 'Agree'. 33.3% of accountants expressed a 'Neutral' view on the matter. There were some accountants who disagreed with the with the question, 6.7% opted 'Disagree' and 6.7% opted 'Strongly Disagreed'.

The mean Likert score is 3.28 (where 1 = strongly disagree, 3 = neutral, 5 = strongly agree); this is representative of a slight tendency towards agreement. The result is not surprising, given the opinions of Al Karaawy (2018) and Houlder (2017) who note that the process will be sped up and more transparent. However, uncertainty surrounding MTD and HMRC's hasty implementation may have dampened expectations amongst accountants.

In the verbatim answers, the accountants noted there will be a reduction in errors, as well as a reduction of physical paperwork; this improves the tax collection process for accountants, however there is general unease at the impact of MTD on SMEs, especially older clients who lack time or computer skills.

5) Do you believe that Making Tax Digital will have the following effect on your accounting practice:

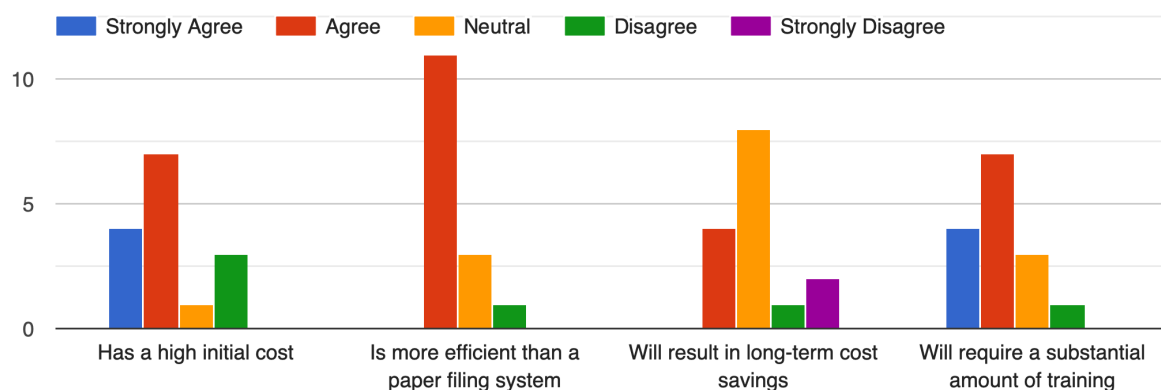


Figure 6: Graphs Portraying Accountants Views on Costs, Efficiency and Training of Making Tax Digital

It can be seen from the above results that 4 accounting practices responded, 'Strongly Agree' and 7 practices replied 'Agree' to the statement regarding a high initial cost for MTD, which equates to 73.3%. The mean Likert score for Q5.1 is 3.79 (where 1 = strongly disagree, 3 = neutral, 5 = strongly agree), which is also strongly indicative of the general consensus of the accountants. The other 4 accounting practices (which equate to 26.7%) were either neutral or disagreed with the statement. These results prove that initial costs are an issue and they will more than likely be quite high. Important to note is that Walker et al. (2007) talks of specific costs in comparison to business size; smaller businesses will tend to pay comparatively more in training costs.

The majority of accounting practices (73.3%) believed that MTD is a more efficient than the current system compared to 20% who were impartial and roughly 6.7% who disagreed. The mean Likert score for Q5.2 is 3.64 (where 1 = strongly disagree, 3 = neutral, 5 = strongly agree); these metrics are a fairly strong indicator of agreement with that statement. These results are corroborated by the survey conducted in 2013 by Alkhatib et al (2018). The results indicated that digital reporting was very beneficial

to filers. The main benefits mentioned were the speed of filings as well the convinced offered due to the around the clock facility.

73.3% of accountants responded with either a neutral or negative answer to the potential long-term cost savings associated with MTD and only 26% of accounting practices believed that it could reduce costs in the future. The mean Likert score for Q5.3 is 2.92 (where 1 = strongly disagree, 3 = neutral, 5 = strongly agree), which further illustrates a generally neutral view by accountants. Collis et al. (2018) supports a pessimistic viewpoint, as they found that almost half of the respondents in their sample considered the cost of digital filing to be high. Despite this, they noted there were mixed views on set up and running costs, as has been demonstrated in these results. Al Karaawy (2018) also supports this argument as he found that both the Federation of Small Businesses (FSB) and the Centre for Equality Research in Business (CERB) believed that MTD implementation will result in high transition costs. The accountants do not specify whether they believe there are potential long-term cost savings to be had; this would be potentially useful data in a follow up study.

The majority of accounting practices (73.3%) also believed that MTD will require a substantial amount of training. 20% of accounting practices were impartial to the question. This was followed by the 6.7% of practices who disagreed. The mean Likert score for Q5.4 is 3.93 (where 1 = strongly disagree, 3 = neutral, 5 = strongly agree), which suggests that the accountants strongly believe the imposition of MTD will require a substantial amount of training. A comparison of Wrightwhyte (2018) and HMRC (2017) not only highlights the likely disparity between HMRC estimates and actual costs, but that 50-100 hours training is required for employees to get up to speed. As training costs (both time and money) are magnified in SMEs, this may be a serious issue. The verbatim responses note the specific threat to the older generation that is posed by forcing them to prepare for MTD implementation.

6) Do you believe that Making Tax Digital:

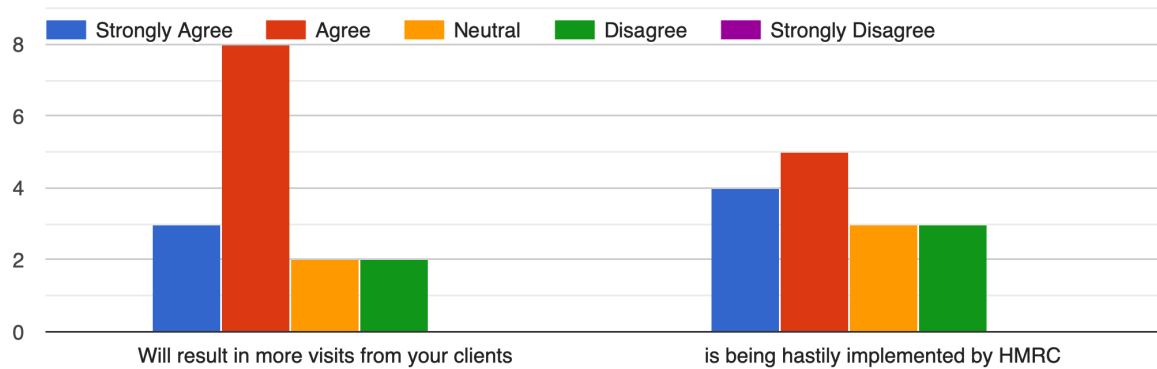


Figure 7: Graphs Portraying Accountants Views on Hasty Implementation of Making Tax Digital

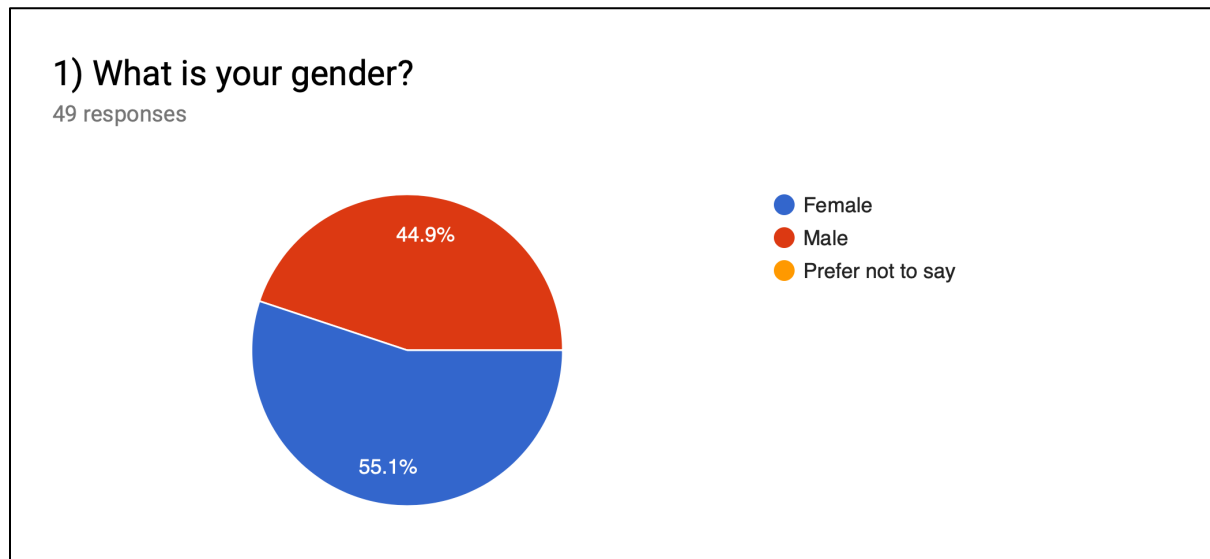
73.3% of accounting practices either agreed or strongly agreed that clients would be visiting them more often for their services. Only 13.3% of accounting practices had an impartial view on the matter and the remaining 13.3% disagreed with the question. The mean Likert score for Q6.1 is 3.79, which suggests accountants expect more visits from their clients after the implementation of MTD. Only 2 of the 14 respondents disagreed with the statement, which is expected; Meall (2017) notes that ACCA head Chas Roy-Chowdhury believes clients may have to see their accountant 5 times a year instead of once. This may have serious knock-on effects as was discussed in the literature review.

A verbatim response notes that “MTD... represents a perfect opportunity for accountancy firms to provide more value added services to their clients.” This puts into perspective that the threat posed by increased workload to accounting practices could instead offer opportunities to those prepared for this eventuality.

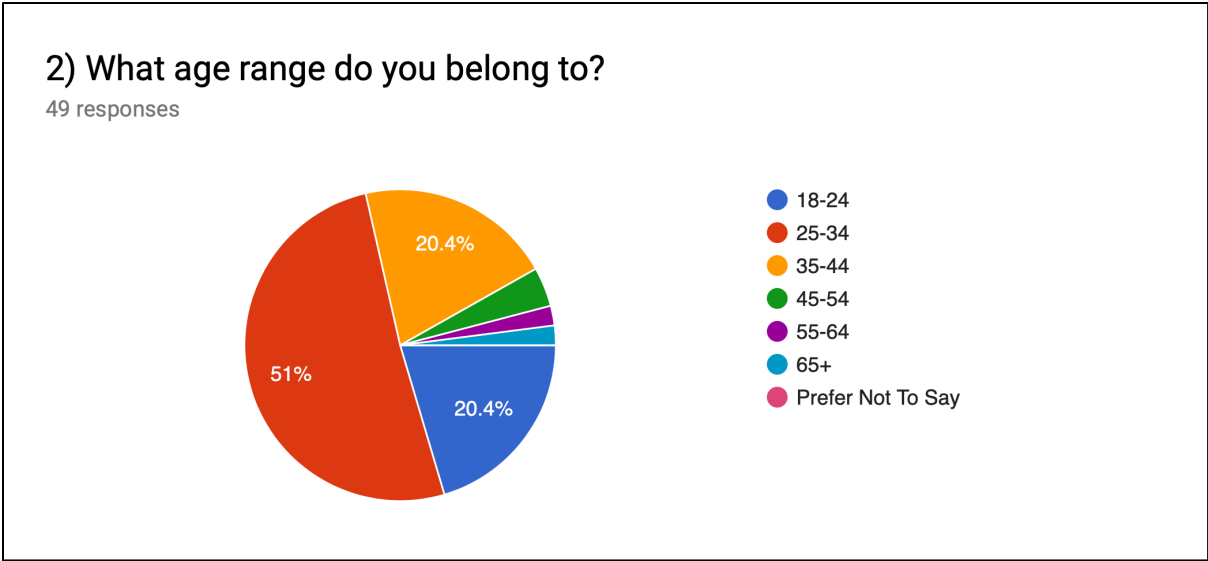
60% of accounting practices either agreed or strongly agreed that MTD was being hastily implemented by HMRC. 20% had a neutral view on the matter and the remaining 20% disagreed with the question. The mean Likert score for Q6.2 is 3.79, which suggests that the accountants believe HMRC is hastily implementing MTD. This goes hand in hand with the information from academic studies; Lloyds Bank (2018), UK200Group (2017) and the House of Commons Treasury Committee (2017) all agree that businesses simply aren't ready for tax digitalisation quite yet. ICAEW (2019) notes that medium sized companies in Brazil - a country with similarly convoluted taxation systems – spend nearly 2000 hours a year ensuring they are tax compliant. HMRC must take their time to ensure that statistic is not repeated in the UK. Accountants do not specify that HMRC's implementation of MTD is hasty in the verbatim responses, rather noting uncertainty and lack of guidance in that regard.

4.2. SMEs

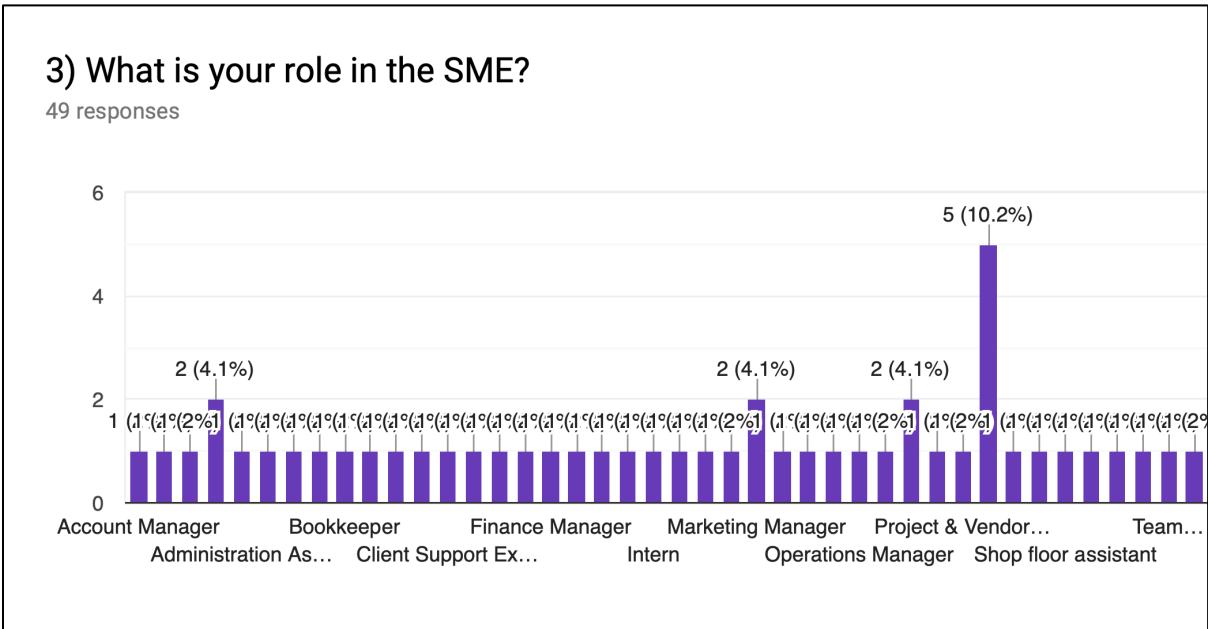
There was a total of 49 responses from SMEs in the Swansea area. These have been analysed below:



Question 1 asked participants to identify their gender. It can be seen that 55.1% of the respondents were females and 44.9% were males. None of the participants chose to withhold this information.

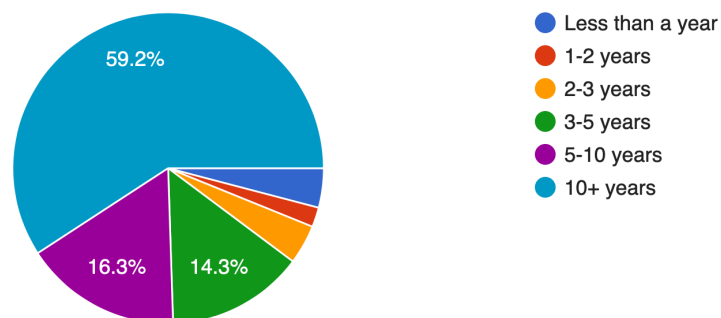


The largest represented age group was 25-34 year olds who accounted for 51% of respondents. This was followed by 18-24 and 35-44 year olds, both ranges accounted for 20.4% of the responses. 4.1% of respondents were between the ages of 45 and 54. The smallest represented group were 55-64 and 65+ year olds, they both accounted for 1% of respondents.



4) How long has your SME been in existence?

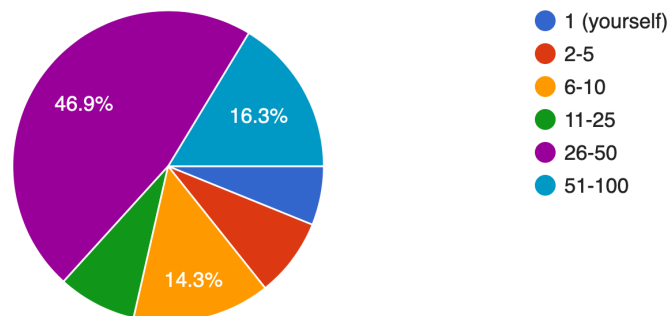
49 responses



The majority (59.2%) of the SMEs that responded to the questionnaire were 10 years or older. This was followed by SMEs that were 5-10 years old which accounted for 16.3% of the responses. SMEs that have been in existence for 3-5 years only accounted for 14.3% of the responses. SMEs that were less than a year and between 2 to 3 years old totalled up to 4.1% each. The smallest represented group were SMEs that were 1-2 years old.

5) How many people are employed at your SME?

49 responses

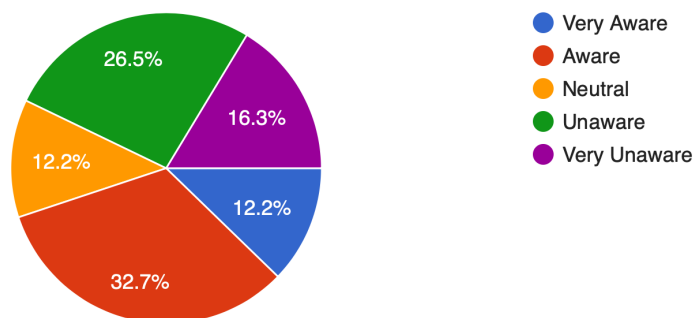


Question 5 asked participants to state how many people were employed at the SME. It can be seen that 46.9% of SME's had 26-50 staff members. This was then followed by SMEs who had 51-100 staff member, the response rate being 16.3%.

Businesses with staff ranging between 6 and 10 only accounted for 14.3% of responses. Staff ranges of 11-25 and 2-5 both had a response rate of 8.2%. Finally the smallest represented group was total number of staff being 1 (yourself), this equated to 6.1% of the total respondents.

6) How aware are you of HMRC's Making Tax Digital initiative?

49 responses

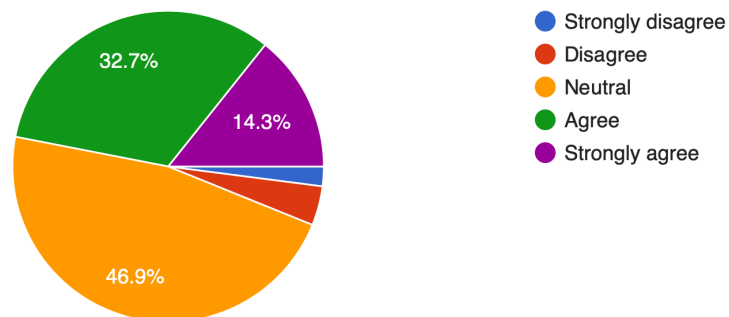


Questions 6 asked participants what level of awareness they had regarding MTD. It can be seen the majority of respondents knew of this initiative. 32.7% were aware and 12.2% were very aware. Following this, 26.5% of respondents were answered unaware. Some employees answered very unaware, these accounted for 16.3% of responses. 12.2% of SMEs that held a neutral stance on the matter.

The mean Likert score is 2.97, which means the average answer is very close to neutral. This is unsurprising given the data; many businesses simply are not ready for MTD and therefore employees do not know as much as they should.

7) Do you agree that the implementation of Making Tax Digital will improve the tax collection process?

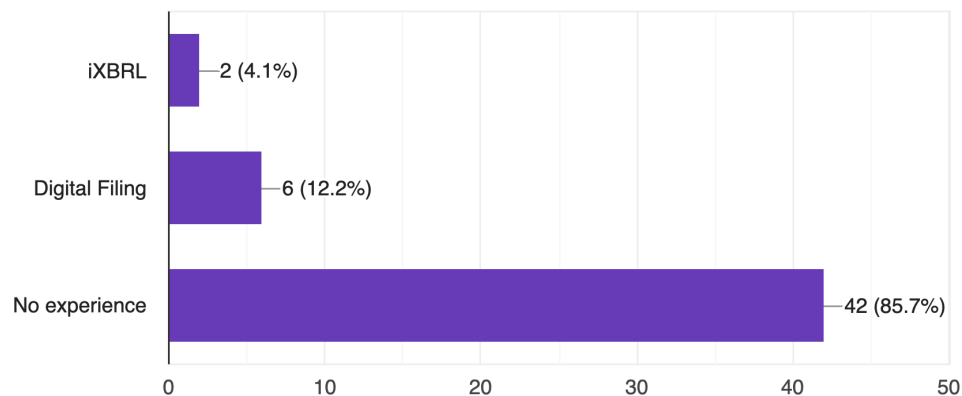
49 responses



Question 7 asked participants if they believed MTD would improve the tax collections process. It can be seen the majority (46.9%) of the answers were neutral in nature. Following this the, 32.7% of respondents agreed that MTD would improve the tax collection process. It can be seen that 14.3% had strongly disagreed with the question and 4.1% disagreed. Only 2% of respondents strongly agreed with the question. The mean Likert score is 3.53, which mirrors the accountants' general agreement with this question.

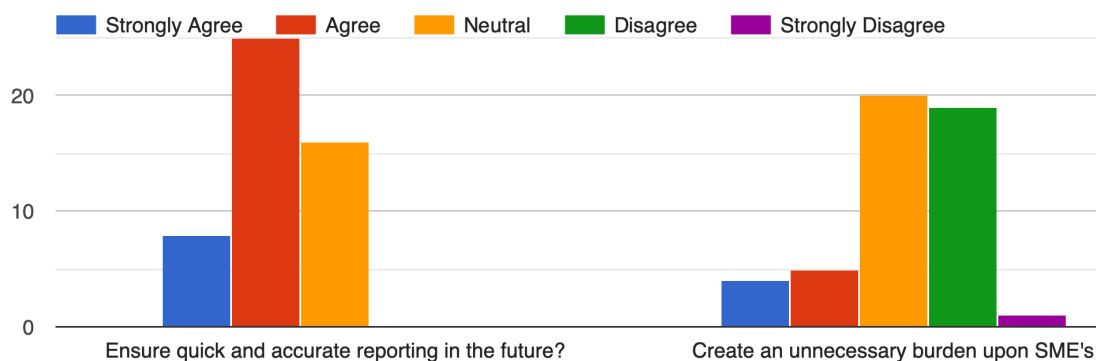
8) Do you have any experience with the following with regards to Tax Digitalisation?

49 responses



It is evident that the majority (85.7%) of SMEs did not have any experience with the tax filing systems. Digital filing seems to be more popular with SMEs as 12.2% of the respondents have had some experience with the system. Only 4.1% of respondents have had experience with iXBRL. This further backs up the view that SMEs are not ready for tax digitalization.

10) Will the implementation of Making Tax Digital:



There is a strong belief that MTD will ensure quick and accurate reporting in the future. It can be seen that 25 SMEs (51%) have agreed with the questions and a further 8 SMEs and a further 8 SMEs (16.3%) strongly agreed. A neutral stance was held by the remaining 16 SMEs, which equate to 32.7%. The mean Likert score is 3.84, which displays general agreement with the statement. The accountants were more split on this question; it seems that SME employees will generally believe that because HMRC has 'good intentions', MTD is good for them as they don't know the inner workings. This works in a similar way to the idea that SME employees will just accept the HMRC estimate without question.

In terms of Q10.2, the vast majority of respondents are neutral or disagree with the statement. The mean Likert score is 2.84, which means there is a slight tendency towards disagree. There may be a similar effect displayed in this question as in the previous; that SME employees will assume that HMRC will do a good job. It could be argued that these results are worthless, as academic arguments (and the accountants) tend towards agreeing with this statement.

5.0. Major Findings and Conclusion

The aims and objectives for this study, as found in Chapter 1, are:

- To critically analyse the rationale for 'Making Tax Digital' (MTD) and the effect it has on accountants and small to medium enterprises (SMEs) by way of a literature review.
- To evaluate Accountants' and SMEs perceptions of the preparatory work required for the implementation of MTD.
- To provide recommendations for HMRC and professional practices to assist in the compliance of MTD.

These objectives are to be completed in this chapter, in tandem with a conclusion of the study and suggestions for further research.

Major findings

5.1 Critical analysis of preparations for and perceptions of MTD and their associated impact

There are significant benefits associated with the uptake of tax digitalisation. Transparency and efficiency of the tax payment process affords more benefits than just speedier payment; increased transparency would also increase trust in HMRC. Increased transparency of tax payment leads to increased trust in tax authorities - tax receipts would rise as a result. A high initial cost for becoming MTD compliant seems unlikely off-set by longer term savings as discussed in the literature review; however, there is no consensus on the initial cost for implementation or the savings afforded by such changes. This is especially true as smaller SMEs will have comparatively larger bills in comparison to medium sized businesses.

There are, however, some serious issues that must be addressed. Although there is no absolute consensus on the financial cost of MTD implementation for SMEs, Wrightwhyte (2018) makes a strong case to disregard HMRC's estimates, instead noting that a high initial cost is almost a certainty. The hasty implementation of MTD has been noted by several academics and accountants to be potentially disastrous.

Theoretically, the increase in efficiency and transparency afforded by the implementation of MTD should increase trust in HMRC as a result. This is unlikely to be the case; HMRC's reputation is likely to be harmed if taxpayers believe HMRC's incompetence is at fault for difficulties in ensuring timely tax compliance at reasonable cost. (long sentence may need revising)

5.1. Areas of Further Research

As has been discussed previously in the review, solid estimates of initial cost and eventual savings have been few and far between. In addition, there are no estimates of the time it would take a SME to be MTD compliant after implementation. Research into the benefits of MTD could induce SMEs to take up processes beneficial to compliance; this could be useful in tandem with education efforts by accountancy firms.

As this study suggests that the success of MTD is closely tied to taxpayer perceptions of HMRC, a study which analyses SME perceptions of HMRC over time (along with data on UK tax receipts over the same time period, as would be provided in time by HMRC) would be very useful in ascertaining whether the initiative is successful or not, and would somewhat clarify the extent of that success (or lack thereof) by plotting trends of those perceptions over time.

5.2. Recommendations

5.2.1. Recommendation 1

The first recommendation is for HMRC; **HMRC should ensure that MTD implementation does not cause SMEs to suffer.** The consensus between accountants and academic sources is that MTD is being hasty implemented; both SMEs and their agents simply aren't ready for such major changes. This is almost entirely the fault of HMRC, as a transition period would have allowed companies and agents to learn new processes before full implementation. HMRC also reneged on its promise to provide smaller businesses free software.

As a result of HMRC's actions (and inaction) regarding MTD, trust in HMRC is dwindling amongst accountants. Accountants believe HMRC's incompetency regarding tax digitalisation could cause serious issues to arise; the exasperation of accountants is quite clear in this issue. Wrightwhyte (2018) notes that HMRC estimates for the cost of tax digitalisation to SMEs are far lower than what should be expected. It is noteworthy that this recommendation is the most important put forward by this study. The major reason people pay their taxes is that they have trust in Governmental processes (Khadjavi 2014, Olsen et al. 2018); therefore, if HMRC breaks that trust by acting against their interests, the rates of evasion and/or non-compliance will increase drastically.

HMRC's release of incorrect information, along with its lack of due care regarding MTD, could give the impression to taxpayers and accountants that it is incompetent or acting in an obfuscatory manner. HMRC's current track record does not inspire confidence. The findings of Wrightwhyte (2018) suggest HMRC has grossly underestimated compliance costs, while HMRC reneged on its promise to provide free software to assist compliance. Any further issues with trust could shatter trust in HMRC and would hamper progress towards successful tax digitalisation; this could be due to HMRC inaction, inaccuracy or incompetence, while a drastic rise in the time needed to ensure compliance would likely have the same effect.

5.2.2. Recommendation 2

Another important consideration is the impact of MTD on accountancy firms; the knock-on effect on SMEs is likely to be considerable, as discussed in the literature review.

It is the recommendation of this study that **accountancy firms must prepare themselves for a massive influx of additional work**; this is partially as a result of the nature of MTD as well as HMRC mismanagement. Without such preparations, it is unlikely accountancy firms will be able to keep up with the increased workload.

5.2.3. Recommendation 3

In tandem with the above recommendation, **accountancy firms must educate their clients** to ensure that efforts toward compliance are shared in between them. HMRC has failed in its attempt to raise awareness; it is now too late for HMRC to properly educate SME owners. Many of the accountant's fears are based upon the relationship with their clients; as discussed in the literature review,

60% have clients who do not have electronic systems in place,
57% have clients who do not use computers or are digitally excluded,
54% believe their clients are not ready for digital reporting,
54% believe that compliance work will be more time-consuming,
49% believe the onus will be on them to keep clients compliant,
42% believe will not be able to charge for the additional work. (AccountingWeb, 2016)

Accountants will have to curate their relationship with clients carefully. Education of clients could induce them to make an effort towards ensuring compliance; without such inducement, it is highly unlikely they will take steps towards putting the relevant computer systems in place. The cost of an accountant's services is likely to rise sharply; as a result, it is in the accountant's interest that clients must appreciate the benefit of such a service.

Part of this effort would be research into the benefits of MTD for SMEs; transcribing it into useful educational information for the layperson can significantly increase the speed of compliance.

5.3. Final conclusion

In conclusion of this study, there are varying opinions on the implementation of MTD between accountants and those working at SMEs. The accountants' answers, as expected, correlate rather strongly with the findings of the literature review. The highest Likert scores from the accountants were in regard to a high initial cost (5.1) and a requirement of substantial amount of training (5.4), along with the notions that MTD will result in more visits from clients (6.1) and that it is being hastily implemented by HMRC (6.2). It could be argued (especially as there is variance in answers between questions that overlapped both questionnaires) that the respondents to the SME questionnaire lack the expertise to give answers that accurately reflect the reality of the situation surrounding the MTD initiative.

The questionnaire data collected from accountants provides strong evidence towards the notion that HMRC has displayed a level of incompetence in the run up to MTD implementation. Hasty implementation of MTD - combined with a paucity of information and support from HMRC - has resulted in a shambolic lack of preparation by SMEs.

The spectre of Brazilian mismanagement of tax digitalisation is looming large over the MTD initiative; it is the best model we have available for a country that applied tax digitalisation swiftly despite possessing an extremely convoluted tax system. In their case, the average business took nearly 2,000 hours to ensure tax compliance each year (ICAEW, 2019); a similar nightmare scenario in the UK needs to be avoided at all costs.

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Appendix – Additional Information

Survey on Making Tax Digital (SME's)

* Required

1. 1) What is your gender? *

Mark only one oval.

- ☐ Female
- ☐ Male
- ☐ Prefer not to say
- ☐ Other: _____

2. 2) What age range do you belong to? *

Mark only one oval.

- ☐ 18-24
- ☐ 25-34
- ☐ 35-44
- ☐ 45-54
- ☐ 55-64
- ☐ 65+
- ☐ Prefer Not To Say

3. 3) What is your role in the SME? *

4. 4) How long has your SME been in existence? *

Mark only one oval.

- ☐ Less than a year
- ☐ 1-2 years
- ☐ 2-3 years
- ☐ 3-5 years
- ☐ 5-10 years
- ☐ 10+ years

Survey on Making Tax Digital (SME's)

* Required

1. **1) What is your gender? ***

Mark only one oval.

- ☐ Female
- ☐ Male
- ☐ Prefer not to say
- ☐ Other: _____

2. **2) What age range do you belong to? ***

Mark only one oval.

- ☐ 18-24
- ☐ 25-34
- ☐ 35-44
- ☐ 45-54
- ☐ 55-64
- ☐ 65+
- ☐ Prefer Not To Say

3. **3) What is your role in the SME? ***

4. **4) How long has your SME been in existence? ***

Mark only one oval.

- ☐ Less than a year
- ☐ 1-2 years
- ☐ 2-3 years
- ☐ 3-5 years
- ☐ 5-10 years
- ☐ 10+ years

Making Tax Digital (Accounting Practices)

* Required

1. **1) What age range do you belong to? ***

Mark only one oval.

- ☐ 18-24
- ☐ 25-34
- ☐ 35-44
- ☐ 45-54
- ☐ 55-64
- ☐ 65+
- ☐ Prefer Not To Say

2. **2) How long has your accountancy practice been in existence? ***

Mark only one oval.

- ☐ 1-2 Years
- ☐ 2-3 Years
- ☐ 3-5 Years
- ☐ 5-10 Years
- ☐ 10+ Years

3. **3) How many people are employed at your accountancy practice? ***

Mark only one oval.

- ☐ 1 (Yourself)
- ☐ 2-5
- ☐ 6-10
- ☐ 11-25
- ☐ 26-50
- ☐ 51-100

Making Tax Digital (Accounting Practices)

* Required

1. 1) What age range do you belong to? *

Mark only one oval.

- ☐ 18-24
- ☐ 25-34
- ☐ 35-44
- ☐ 45-54
- ☐ 55-64
- ☐ 65+
- ☐ Prefer Not To Say

2. 2) How long has your accountancy practice been in existence? *

Mark only one oval.

- ☐ 1-2 Years
- ☐ 2-3 Years
- ☐ 3-5 Years
- ☐ 5-10 Years
- ☐ 10+ Years

3. 3) How many people are employed at your accountancy practice? *

Mark only one oval.

- ☐ 1 (Yourself)
- ☐ 2-5
- ☐ 6-10
- ☐ 11-25
- ☐ 26-50
- ☐ 51-100

Correlations

			VAR00001	VAR00002	VAR00003	VAR00004	VAR00005	VAR00006	VAR00007	VAR00008	VAR00009
Kendall's tau_b	VAR00001	Correlation Coefficient	1.000	-.111	.889*	.105	.889*	.738	.316	.222	.316
		Sig. (2-tailed)	.	.795	.037	.801	.037	.077	.448	.603	.448
		N	7	5	5	5	5	5	5	5	5
	VAR00002	Correlation Coefficient	-.111	1.000	.000	-.527	-.222	.105	-.738	-.667	-.738
		Sig. (2-tailed)	.795	.	1.000	.207	.603	.801	.077	.118	.077
		N	5	5	5	5	5	5	5	5	5
	VAR00003	Correlation Coefficient	.889*	.000	1.000	.105	.889*	.738	.316	.222	.316
		Sig. (2-tailed)	.037	1.000	.	.801	.037	.077	.448	.603	.448
		N	5	5	5	5	5	5	5	5	5
	VAR00004	Correlation Coefficient	.105	-.527	.105	1.000	.316	-.200	.800	.949*	.800
		Sig. (2-tailed)	.801	.207	.801	.	.448	.624	.050	.023	.050
		N	5	5	5	5	5	5	5	5	5
	VAR00005	Correlation Coefficient	.889*	-.222	.889*	.316	1.000	.527	.527	.444	.527
		Sig. (2-tailed)	.037	.603	.037	.448	.	.207	.207	.298	.207
		N	5	5	5	5	5	5	5	5	5
	VAR00006	Correlation Coefficient	.738	.105	.738	-.200	.527	1.000	.000	-.105	.000
		Sig. (2-tailed)	.077	.801	.077	.624	.207	.	1.000	.801	1.000
		N	5	5	5	5	5	5	5	5	5
	VAR00007	Correlation Coefficient	.316	-.738	.316	.800	.527	.000	1.000	.949*	1.000*
		Sig. (2-tailed)	.448	.077	.448	.050	.207	1.000	.	.023	.
		N	5	5	5	5	5	5	5	5	5
	VAR00008	Correlation Coefficient	.222	-.667	.222	.949*	.444	-.105	.949*	1.000	.949*
		Sig. (2-tailed)	.603	.118	.603	.023	.298	.801	.023	.	.023
		N	5	5	5	5	5	5	5	5	5
	VAR00009	Correlation Coefficient	.316	-.738	.316	.800	.527	.000	1.000**	.949*	1.000
		Sig. (2-tailed)	.448	.077	.448	.050	.207	1.000	.	.023	.
		N	5	5	5	5	5	5	5	5	5
Spearman's rho	VAR00001	Correlation Coefficient	1.000	.053	.947*	.154	.947*	.872	.308	.237	.308
		Sig. (2-tailed)	.	.933	.014	.805	.014	.054	.614	.701	.614
		N	7	5	5	5	5	5	5	5	5
	VAR00002	Correlation Coefficient	.053	1.000	.105	-.667	-.158	.154	-.821	-.763	-.821
		Sig. (2-tailed)	.933	.	.866	.219	.800	.805	.089	.133	.089
		N	5	5	5	5	5	5	5	5	5
	VAR00003	Correlation Coefficient	.947*	.105	1.000	.205	.921*	.872	.359	.289	.359
		Sig. (2-tailed)	.014	.866	.	.741	.026	.054	.553	.637	.553
		N	5	5	5	5	5	5	5	5	5
	VAR00004	Correlation Coefficient	.154	-.667	.205	1.000	.462	-.200	.900*	.975**	.900*
		Sig. (2-tailed)	.805	.219	.741	.	.434	.747	.037	.005	.037
		N	5	5	5	5	5	5	5	5	5
	VAR00005	Correlation Coefficient	.947*	-.158	.921*	.462	1.000	.718	.564	.526	.564
		Sig. (2-tailed)	.014	.800	.026	.434	.	.172	.322	.362	.322
		N	5	5	5	5	5	5	5	5	5
	VAR00006	Correlation Coefficient	.872	.154	.872	-.200	.718	1.000	.100	-.051	.100
		Sig. (2-tailed)	.054	.805	.054	.747	.172	.	.873	.935	.873
		N	5	5	5	5	5	5	5	5	5
	VAR00007	Correlation Coefficient	.308	-.821	.359	.900*	.564	.100	1.000	.975**	1.000**
		Sig. (2-tailed)	.614	.089	.553	.037	.322	.873	.	.005	.
		N	5	5	5	5	5	5	5	5	5
	VAR00008	Correlation Coefficient	.237	-.763	.289	.975**	.526	-.051	.975**	1.000	.975**
		Sig. (2-tailed)	.701	.133	.637	.005	.362	.935	.005	.	.005
		N	5	5	5	5	5	5	5	5	5
	VAR00009	Correlation Coefficient	.308	-.821	.359	.900*	.564	.100	1.000**	.975**	1.000
		Sig. (2-tailed)	.614	.089	.553	.037	.322	.873	.	.005	.
		N	5	5	5	5	5	5	5	5	5

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

Correlations

			VAR00010	VAR00011	VAR00012	VAR00013	VAR00014	VAR00015	VAR00016	VAR00017	VAR00018
Kendall's tau_b	VAR00010	Correlation Coefficient	1.000	.333	-.816	.816	-.816	-.333	.333	-1.000	-.333
		Sig. (2-tailed)	.	.602	.221	.221	.221	.602	.602	.	.602
		N	3	3	3	3	3	3	3	3	3
	VAR00011	Correlation Coefficient	.333	1.000	.000	.000	.000	-1.000	-.333	-.333	-1.000
		Sig. (2-tailed)	.602	.	1.000	1.000	1.000	.	.602	.602	.
		N	3	3	3	3	3	3	3	3	3
	VAR00012	Correlation Coefficient	-.816	.000	1.000	-.964**	.111	.738	-.816	.889*	.316
		Sig. (2-tailed)	.221	1.000	.	.010	.795	.077	.221	.037	.448
		N	3	3	6	6	5	5	3	5	5
	VAR00013	Correlation Coefficient	.816	.000	-.964**	1.000	-.111	-.738	.816	-.889*	-.316
		Sig. (2-tailed)	.221	1.000	.010	.	.795	.077	.221	.037	.448
		N	3	3	6	6	5	5	3	5	5
	VAR00014	Correlation Coefficient	-.816	.000	.111	-.111	1.000	-.105	-.816	.000	-.105
		Sig. (2-tailed)	.221	1.000	.795	.795	.	.801	.221	1.000	.801
		N	3	3	5	5	5	5	3	5	5
	VAR00015	Correlation Coefficient	-.333	-1.000**	.738	-.738	-.105	1.000	.333	.738	.600
		Sig. (2-tailed)	.602	.	.077	.077	.801	.	.602	.077	.142
		N	3	3	5	5	5	5	3	5	5
	VAR00016	Correlation Coefficient	.333	-.333	-.816	.816	-.816	.333	1.000	-.333	.333
		Sig. (2-tailed)	.602	.602	.221	.221	.221	.602	.	.602	.602
		N	3	3	3	3	3	3	3	3	3
	VAR00017	Correlation Coefficient	-1.000**	-.333	.889*	-.889*	.000	.738	-.333	1.000	.316
		Sig. (2-tailed)	.	.602	.037	.037	1.000	.077	.602	.	.448
		N	3	3	5	5	5	5	3	5	5
	VAR00018	Correlation Coefficient	-.333	-1.000**	.316	-.316	-.105	.600	.333	.316	1.000
		Sig. (2-tailed)	.602	.	.448	.448	.801	.142	.602	.448	.
		N	3	3	5	5	5	5	3	5	5
Spearman's rho	VAR00010	Correlation Coefficient	1.000	.500	-.866	.866	-.866	-.500	.500	-1.000**	-.500
		Sig. (2-tailed)	.	.667	.333	.333	.333	.667	.667	.	.667
		N	3	3	3	3	3	3	3	3	3
	VAR00011	Correlation Coefficient	.500	1.000	.000	.000	.000	-1.000**	-.500	-.500	-1.000**
		Sig. (2-tailed)	.667	.	1.000	1.000	1.000	.	.667	.667	.
		N	3	3	3	3	3	3	3	3	3
	VAR00012	Correlation Coefficient	-.866	.000	1.000	-.985**	.158	.821	-.866	.947*	.359
		Sig. (2-tailed)	.333	1.000	.	.000	.800	.089	.333	.014	.553
		N	3	3	6	6	5	5	3	5	5
	VAR00013	Correlation Coefficient	.866	.000	-.985**	1.000	-.158	-.821	.866	-.947*	-.359
		Sig. (2-tailed)	.333	1.000	.000	.	.800	.089	.333	.014	.553
		N	3	3	6	6	5	5	3	5	5
	VAR00014	Correlation Coefficient	-.866	.000	.158	-.158	1.000	-.205	-.866	.105	-.051
		Sig. (2-tailed)	.333	1.000	.800	.800	.	.741	.333	.866	.935
		N	3	3	5	5	5	5	3	5	5
	VAR00015	Correlation Coefficient	-.500	-1.000**	.821	-.821	-.205	1.000	.500	.872	.700
		Sig. (2-tailed)	.667	.	.089	.089	.741	.	.667	.054	.188
		N	3	3	5	5	5	5	3	5	5
	VAR00016	Correlation Coefficient	.500	-.500	-.866	.866	-.866	.500	1.000	-.500	.500
		Sig. (2-tailed)	.667	.667	.333	.333	.333	.667	.	.667	.667
		N	3	3	3	3	3	3	3	3	3
	VAR00017	Correlation Coefficient	-1.000**	-.500	.947*	-.947*	.105	.872	-.500	1.000	.359
		Sig. (2-tailed)	.	.667	.014	.014	.866	.054	.667	.	.553
		N	3	3	5	5	5	5	3	5	5
	VAR00018	Correlation Coefficient	-.500	-1.000**	.359	-.359	-.051	.700	.500	.359	1.000
		Sig. (2-tailed)	.667	.	.553	.553	.935	.188	.667	.553	.
		N	3	3	5	5	5	5	3	5	5

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).