Using information and communication technologies to reduce the compliance burdens faced by small businesses

A PROPOSAL BY ACCA

JULY 2004
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**BACKGROUND**

Small businesses are a major contributor to the health of our economy and to diversity of opportunity in our society. There are over 3.7 million small businesses, 99% of all UK business stock, of which 2.6 million are run by sole proprietors. All businesses have to comply with the wide range of regulations that govern business life, but this burden is most heavily felt by small businesses which are the least equipped to deal with them. One key area of regulation is taxation, and although it is not top of the list of concerns it can create anxiety for small-business owners, and inability to keep on top of tax obligations can contribute to financial failure.

In pursuing its goal to ‘make the UK the best place to start and grow a business by 2005’ the Government sees new technology as a key enabler. Government departments have challenging targets to make their services available on-line and to achieve take-up of these electronic services. Currently nearly 70% of SMEs have access to the Internet, and nearly half use computerised accounting packages.

When small businesses get into difficulty with their taxes it can often be caused by poor record keeping, or ignorance of the key rules of the different tax regimes. Making accounting software that is tax compliant more widely accessible to the smallest businesses would give them much greater opportunity to survive and grow.

Most small businesses rely on their accountants and advisers for help with their tax administration. These have a key role, both in promoting the wider use of accounting packages and on-line filing, as well as acting as agents for the resolution of queries, or even the filing itself in some cases. Accountants would be a key audience for the present project.

**THE GOAL**

At present, in order to comply with tax regulations such as PAYE and VAT, small businesses make records of their receipts and payments in simple sets of books or on their computer accounting packages. From this information they must calculate their tax liabilities (e.g., the tax deducted from staff wages) and transfer the details (either manually or via the computer keyboard) on to the relevant tax return. The tax return is then posted to the appropriate Government agency (e.g., the VAT Office), together with a handwritten cheque. In some cases accountants or external bookkeepers are involved in this process. On receipt of the relevant documents and payments the revenue departments must process these, resolve any queries and periodically audit the information contained in a proportion of the returns.

This unintentionally complex and time-consuming process in respect of PAYE and VAT (as frequent examples) is presented as ‘typical flows’ in the diagram below (figure 1).

Business owners should only need to record each transaction once (e.g., when a sales invoice with VAT is prepared for a customer). By linking businesses’ accounting software packages to the revenue departments’ e-business platforms ‘one-touch’ record keeping could be achieved. The accounting system would automatically aggregate all of the relevant transactions, and prepare the tax return and payment instruction, ready for approval. The business owner would provide the approval (via the keyboard) on the due date. The return and payment would then be submitted electronically.
In addition, the revenue departments’ e-business platforms would utilise simple algorithms to test the accuracy of the returns made. Where an issue required resolution an electronic alert would be sent to the business’s authorised accountant/agent (or to the business itself if no agent existed). Where appropriate, the agent would then liaise with the firm to resolve or explain to the revenue department the reasons for the apparent anomaly.

These much more efficient transactions are represented by the ‘most efficient’ and ‘value added’ flows in figure 1 and would result in a meaningful reduction in the number of bookkeeping transactions that small businesses need to complete.
ECONOMIC INCENTIVES

To make change come about quickly we need to provide clear incentives for small business.

The revenue departments already offer direct incentives, e.g., the Inland Revenue has announced incentives (which can add up to £825) and Customs and Excise provide an extra seven days for businesses to file returns electronically. In the context of e-filing Corporation Tax returns, the Inland Revenue has received guidelines from accountants about the range of incentives that would be attractive, if offered.

The order of priority for incentives is thought to be:

• reducing the cost to businesses
• making the interaction with agents and regulators easier
• reducing the uncertainty around the return filing process
• providing some flexibility around fixed statutory deadlines to help overcome filing peaks.

Larger accountancy firms are likely to be attracted more by the promise of process improvement. Direct financial inducements are thought to be of more interest to smaller firms. The very smallest businesses might require free Government-provided software packages to support basic interactions (the Inland Revenue already provides e-filing software free of charge).

Training would need to be readily and conveniently available to small businesses and accountants, in order to ensure that e-filing would bring immediate time-saving benefits. Customs and Excise, and other Government departments, would need to adopt procedures akin to the existing Inland Revenue ‘authorised agents’ scheme (known as 64/8). This extension would be necessary in order to facilitate the involvement of accountants in e-filing, which would be particularly important to ensure accuracy when businesses are adopting this new approach.

In addition, small businesses would need assurance that electronic interactions with Government would not increase the likelihood of enquiries being made by the Inland Revenue, Customs and Excise or other data recipients.

Small businesses may also have dealings with a wide range of Government agencies, including Companies House, the Office of National Statistics, the Charities Commission and the Financial Services Authority. The same principles and similar benefits would accrue across the whole spectrum of Government/small business interaction.

THE WAY FORWARD

This proposition would provide an opportunity for all the major stakeholders to realise real advantages.

For small businesses the complexity of completing, lodging and paying tax would be reduced dramatically. By moving to a ‘one-touch’ e-enabled solution they could release valuable management time to concentrate on running the businesses.

For the accountants of small businesses the opportunity would be to free up time spent on low-value compliance work to focus on higher value-adding business advice.

For the Inland Revenue and Customs and Excise these developments would be consistent with established e-business targets. Integrated systems would provide opportunities for cost savings and improved reliability of data.

For the Government this proposition would provide a real opportunity to achieve a step change in the use of joined-up e-services by the small business sector.
This initiative would require the involvement and support of the businesses themselves, the Government, the revenue departments, the accountancy bodies, accounting practitioners, suppliers of accountancy software and telecoms providers to the small-firms sector.

We believe that our vision will eventually become a reality, whether or not action is taken to promote it at this time. However, a co-ordinated initiative in the near future would significantly accelerate the process to the benefit of all parties, especially small businesses and the Government.

We would like to ask for that support, in principle, at this stage.

Assuming we have Government support in place our next steps would be to build a more comprehensive model of the proposition and to begin discussions with potential applications and infrastructure partners. Our aim is to move towards a pilot during 2004/05.
The technical feasibility of this proposal is dependent upon four key features.

1. **Commercial accounting software packages.**
   These are widely available and their use by small businesses is growing.

2. **The Internet.**
   Recent surveys have shown that 70% of small firms already have an Internet connection.

3. **The availability of broadband.**
   The availability of broadband is not essential, but it would make the transmission of information between businesses, their accountants and the revenue departments much faster. As yet a relatively small proportion of firms have adopted broadband, but usage is growing rapidly.

4. **A common ‘language’ that is understood by all computer systems.**
   The base technology to enable the linking of accounting software packages already exists, with XML\(^1\) a standard feature of widely-used software and XBRL\(^2\) set to become so.\(^3\) XBRL is expected to be a key technology here, as it has the potential to change the entire financial reporting process.

XBRL is a new electronic language for financial data. It provides major benefits in the preparation, analysis and communication of business information. It offers cost savings, greater efficiency and improved accuracy and reliability to all those involved in supplying or using financial data.

XBRL is being developed by an international non-profit consortium of more than 150 major companies, organisations and government agencies. It is free of licence fees. It is already being put to practical use in a number of countries, including the UK. Usage is expected to grow rapidly during 2004.

The XBRL-UK organisation contributes to the international development of XBRL and oversees its progress in the United Kingdom.\(^4\)

Members of XBRL-UK include KPMG, the Institute of Chartered Accountants in England and Wales (ICAEW) and the Inland Revenue.

**FOOTNOTES**

1. XML – Extensible Markup Language.
2. XBRL – Extensible Business Reporting Language.