

TOLLEY'S TAX & ACCOUNTANCY MARKET REVIEW 2015



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About the Author

Nicholas Byrne is the Market Development Director for Tolley, the Tax and Accountancy division of LexisNexis UK. Nicholas has worked at Tolley since 2009 and is the first ever non-member of both the CIOT and the ATT to be given full voting rights on any of their committees, sitting on their Brand and Business Development committees respectively. Prior to working in the world of tax and accountancy Nicholas has worked as an industry analyst for the telecommunications sector, a media analyst specialising in reputation management for not-for-profit organisations and FMCG and a commercial product manager within the PR services sector.

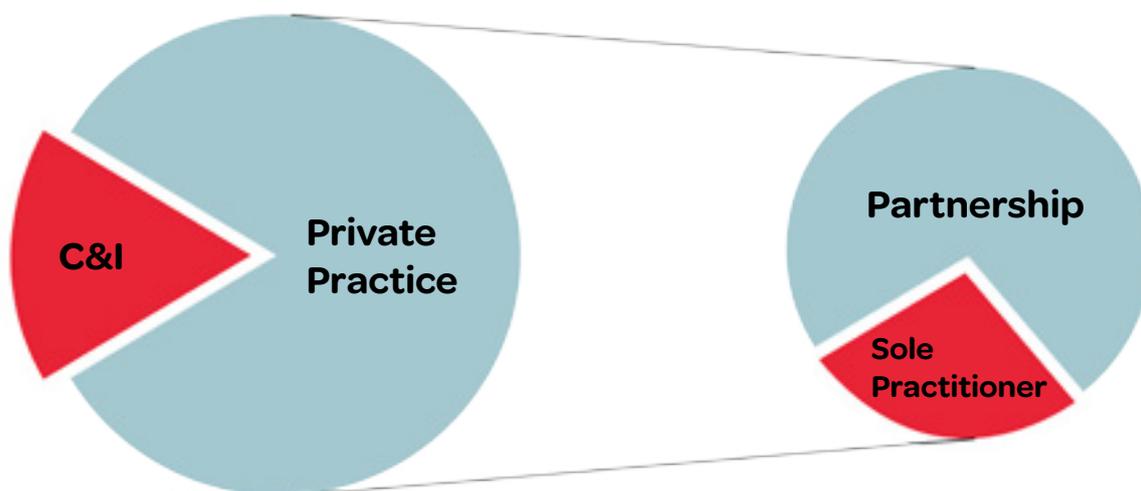
About the Report

Tolley recently sent a survey out to a selection of its clients in both private practice and commerce and industry. The following report details some of the findings and highlights common trends within the profession. The report also draws comparisons from a similar survey that was undertaken in 2013.

Sample proportion

Of the responses generated the majority (71%) were from private practice and 28% of those were sole practitioners. This means that in terms of the representation of the market, by number of firms sole practitioners are under represented, although in terms of the number of individuals in the profession, they are over represented. A dichotomy that the author believes lends some balance to the overall results.

29% of responses were from practitioners working in commerce and industry and represented a broad cross section of verticals, including but not limited to; pharmaceuticals, retail, manufacturing, food manufacturing, travel & leisure, transport & automotive, hospitality and financial services.



Executive Summary

The regulatory burden and the need to keep up to date with the ever changing face of the UK tax system are key concerns for tax advisors. The economic recovery has alleviated many of the concerns from two years ago but in place of those financial woes are concerns about having the right staff with the right skills. This, in part, appears to have been born out of the need for practices to diversify in order to come out of the recession in good stead. The volume of work being referred on has dramatically increased from 2013, and this is likely to be a result of diversification of services combined with issues of having the right staff with the right skills and knowledge. Technology is a key driver for development within the profession and all levels of seniority and experience seem to be united in the belief that now, and for the foreseeable future, it is key for their firms to embrace new technologies and work procedures to maintain their place in the market.

Tolley's Tax & Accountancy Market Review

Challenges facing the industry

The regulatory burden placed on practitioners is the biggest challenge that they face, with 56% of all respondents placing it within their top three problems. This is up slightly from the 2013 Tolley report where 51% of respondents said that the regulatory burden was in their top three problems. And exactly as we saw in 2013, 40% of respondents placed achieving a suitable work-life balance within their top three problems.

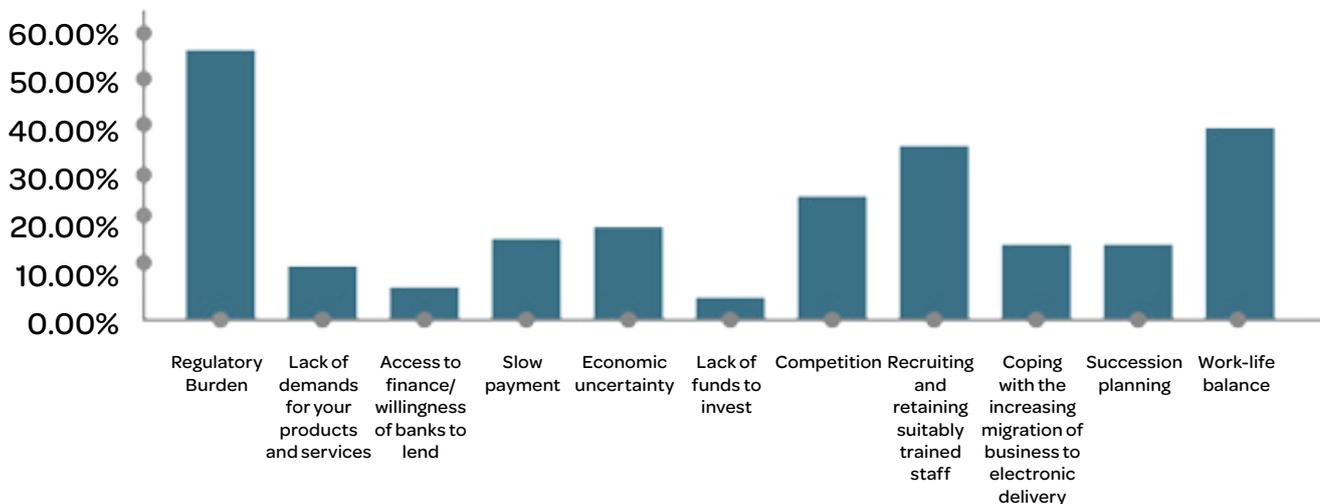
Practitioners seem to have more faith in the current economic environment than they did have in 2013. Whereas 30% of respondents placed economic uncertainties in their top three challenges in 2013, now, in 2015, only 18% do so.

However, alongside the increased comfort in the economy comes a concern about having the right staff. In 2013 recruiting and retaining the right staff was only in the top three challenges for 10% of respondents and now this has jumped up to 35%.

All this would seem to suggest a kind of logical progression, where the regulatory burden represents the fundamentals of the profession and so will always track highly in people's minds no matter what the wider socioeconomic situation is. And when the economy is performing badly there are real concerns about what the impact of that will be on the organisation and its future sustainability. However, once the economy calms down, worries change to internal factors and people start to think about whether they are set up to succeed and make the most of the more favourable conditions they find themselves in.

Another hangover from the recession is that the larger national and international firms recruited fewer students during the economic downturn. This means that there is a skill shortage at a certain level within these firms, which they are now in the process of backfilling by hiring staff of that level out of smaller firms, tempting them with higher salaries. This makes it harder for firms to retain their employees and explains the increased concerns about having the right staff.

What are the three biggest challenges facing your business?



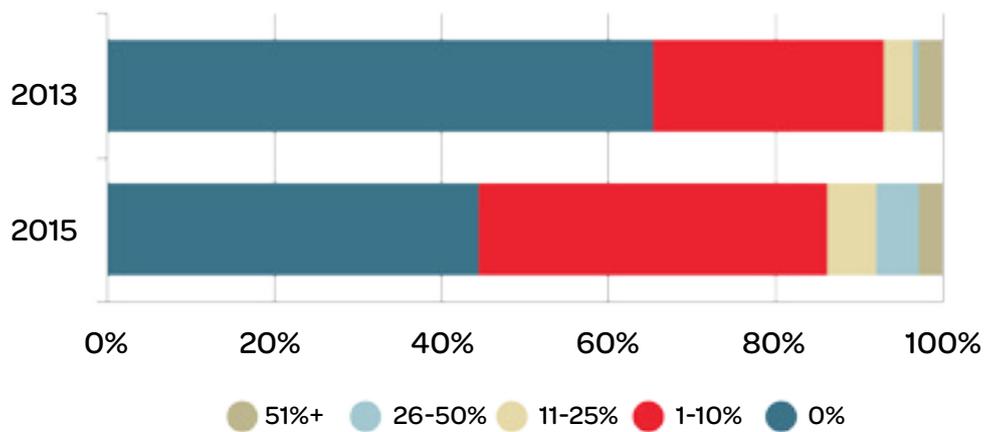
Referring work to other parties

The number of people referring work out to other organizations has increased quite dramatically since 2013, where 66% of organisations kept all work in house then, as opposed to just 45% in 2015. And 14% of people are now referring on more than 20% of their work as opposed to 7% in 2013.

This could be a result of one of two factors discussed earlier. Either the more comfortable wider economic environment is meaning that people feel more able to not hang on to every scrap of work possible and just focus on their specialties. Or, the increased staffing concerns observed means that they do not feel able to undertake all of the work that they take on.

The improved economic environment is also going to be stimulating activity within the wider business environment. In these more preferable conditions more acquisition and expansion activity will be taking place, which in turn means much more complex instructions being received by firms from their clients. Not all firms will be so confident in taking on these complex jobs and so will seek more outside help than they did when the economy was less buoyant and the instructions were simpler.

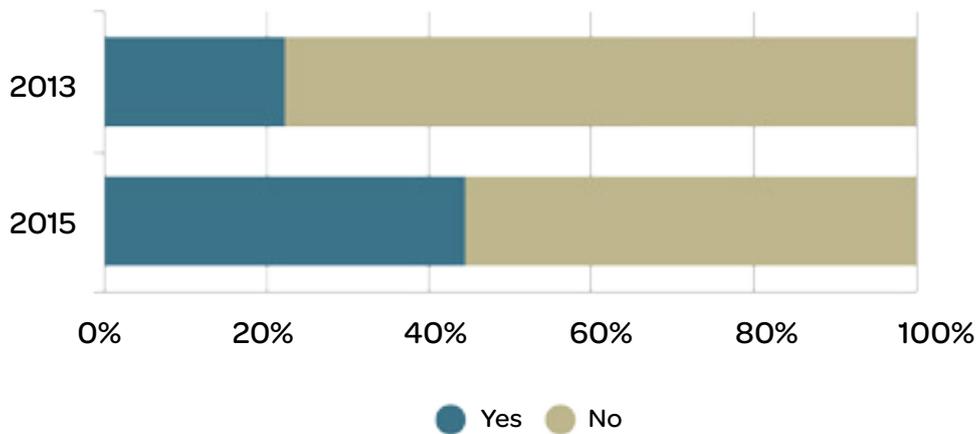
What percentage of work do you currently outsource to either an external firm or a specialist consultant



Diversifying your practice

Another reason for this increased amount of work being referred could be the increased amount of diversification that is taking place within firms. In 2013 only 22% of firms had felt they needed to diversify their offering to remain competitive. However, in 2015 this figure has shot up to 44%. It could be the case that in order to retain clients and win new business, firms are offering services that they cannot technically deliver, and are then referring on those elements of the client work to other parties. So whilst they are benefiting from retaining or acquiring the client, they are not able to keep hold of all the associated fees.

Have you had to diversify to remain competitive?



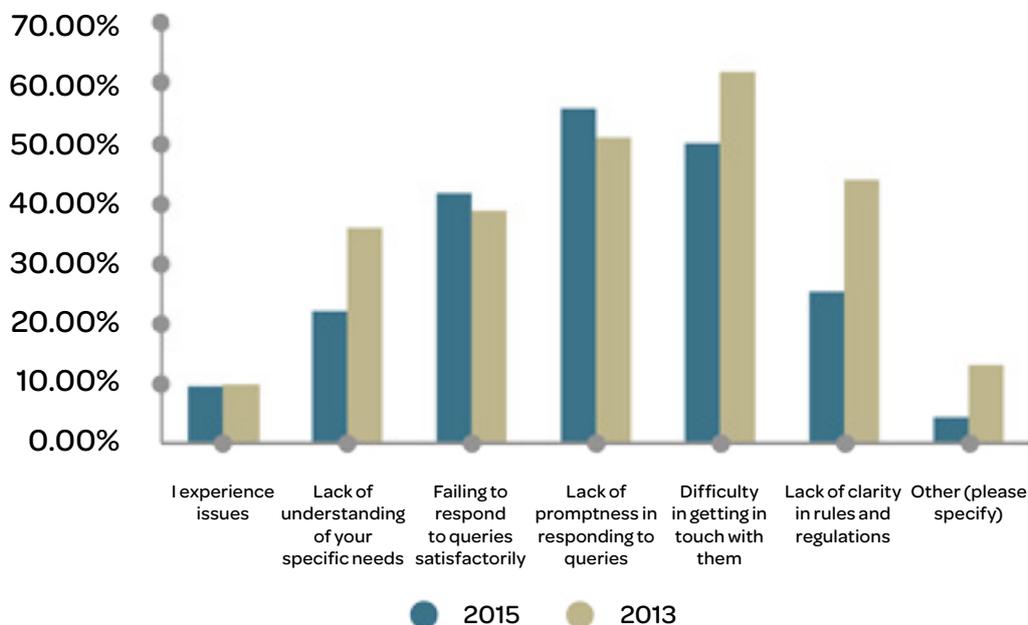
HMRC's performance

By and large there has not been much of a perceived change in HMRC's performance since 2013. Then and now only 10% of the market claimed to have experienced no issues with their service.

The root cause of the issues does appear to have shifted slightly though, with HMRC being easier to get in touch with and understanding people's needs better. The whole process seems to be being supported by much improved clarity in the rules and regulations as well. So despite the naysayers claiming that the Office of Tax Simplification is failing because the volume of legislation is continuing to grow, maybe it is the OTS's supporters who claim that simplification does not mean brevity and that in order to make things clearer you sometimes need to say more, who are right. Either way, it is true that HMRC seem to be much more consistent in their application of the rules.

Either way, despite all the positives with the beginning of the process that we are seeing here, when it comes to actually responding to queries and resolving issues, dissatisfaction with HMRC is continuing to grow. As such, practitioners who are reassured to get to speak to someone who understands their situation quickly, are often left dissatisfied at the end of the process that the resolution has either taken too long to get to, or just ended in a unsatisfactory position.

What are the major challenges that you face when dealing with HMRC?



Achieving success in practice

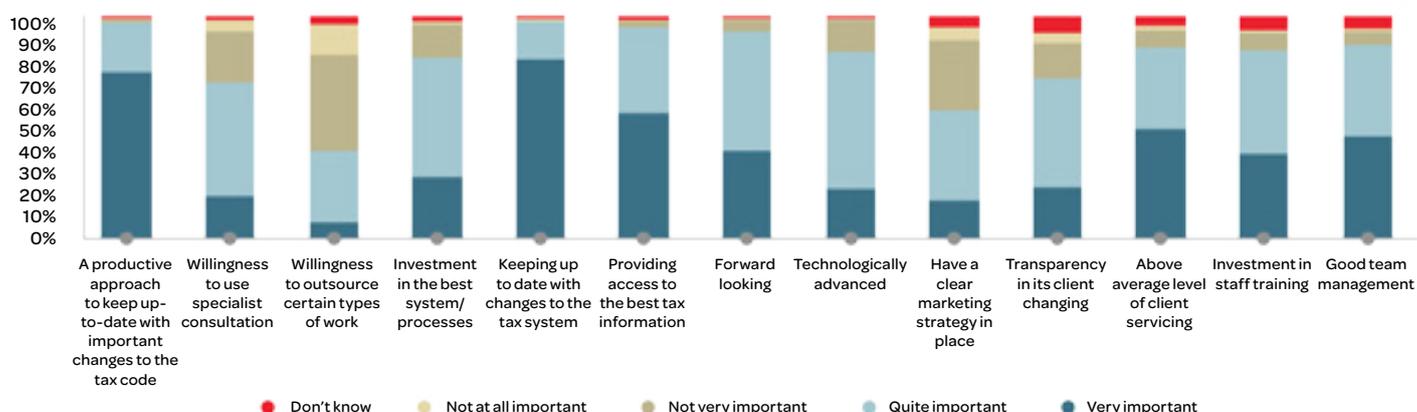
It was virtually unanimously agreed by all respondents that not only was the key to being successful in practice keeping up to date with all the changes to the tax system, but that you had to be proactive in doing so. And having access to the very best tax information was also agreed by almost all as a key success driver. Having access to the best technical information seems to be a much bigger success driver in fact than having access to the latest technologies, systems and processes.

It is also interesting to note here that whilst 55% of respondents were referring work out to other firms, only 40% thought that this was a good thing. This means that there are at least 15% of respondents who are referring out work but think that it is in the firm's best interest to develop the skills to be able to refrain from doing so in the future. Perhaps this is the reason that so many respondents believe that staff training and development is so key to success.

The investment in staff training is likely to have multiple benefits. It is not just about having the skills in place to undertake client work but also about staff retention. As has already been discussed, larger firms have a skill shortage at a certain level, born out of their recruitment slow down during the recession, and as such they are recruiting staff out of smaller firms. By investing in training for their employees, smaller firms can demonstrate to their staff how committed to their development they are. This in turn will breed loyalty within their employees and demonstrate that they have a promising future within their existing firm, aiding with staff retention.

One result that is a little surprising here is the fact that despite 44% of firms reporting that they have had to diversify to be able to stay competitive, the need for a clear marketing strategy is seen as the second lowest success driver (after outsourcing). Having a strategy to attract the right type of work from the right type of clients may lessen the need to have to invest in diversification of the practice. Although it may be the case that diversification is required regardless, in order to keep up with the rapidly changing face of the modern tax practice and the ever evolving requirements coming out of HMRC.

In your opinion, what are the characteristics which enable success in a tax practice or in-house practice team, in a changing environment? Please rate the following by importance

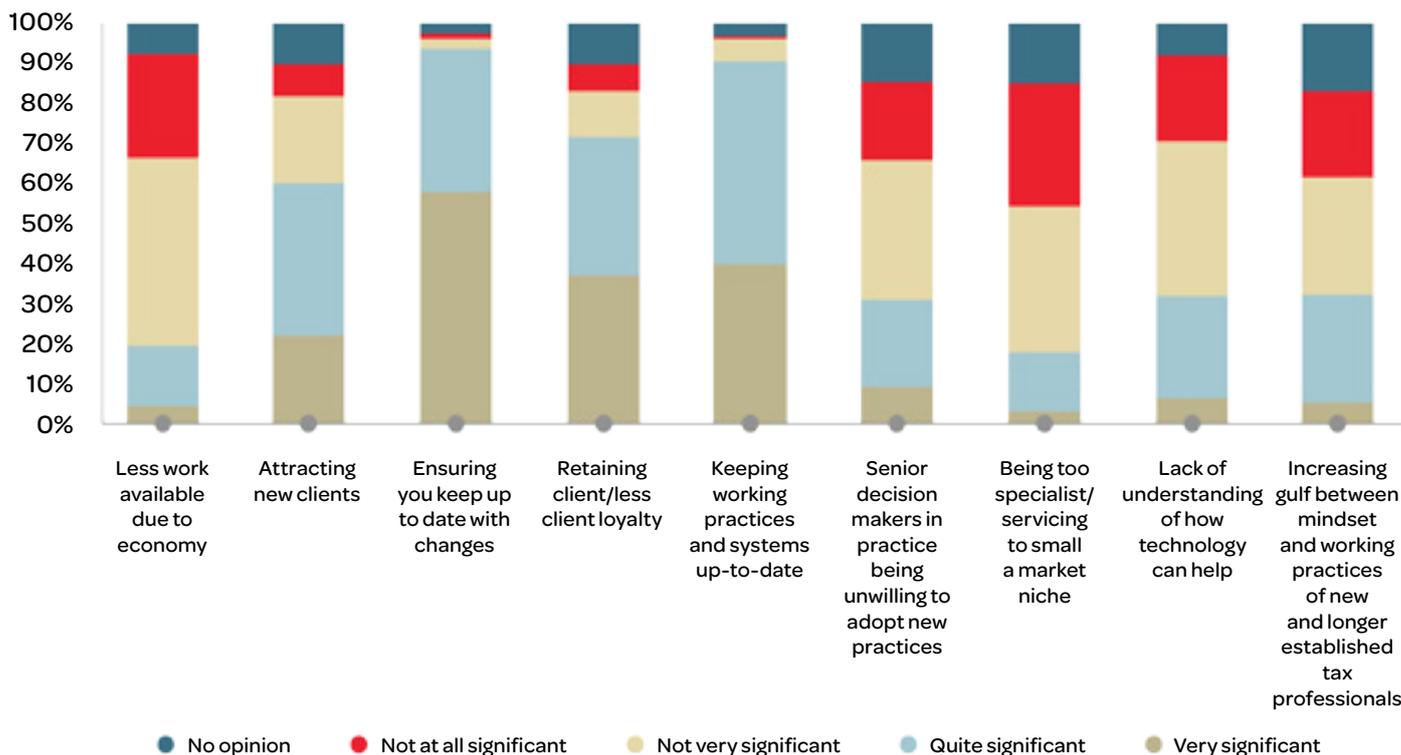


It is clear that the majority of the industry is aware of how technology can help them to realise efficiencies within their practice. And with apparent agreement within firms from staff of all levels, the modernization of work processes and systems seems to be in full swing. With the imminent arrival of the Government's Digital Strategy this is likely to be seen as a necessity by any firm that has not already modernized their practice. And those that were already ahead of the game are likely to be constantly looking for new advancements that will help them to keep their noses ahead of the pack that are closing the gap on them.

What also seems to be weighing on the collective mind of practitioners is the very real need to stay on top of the rapid changes that beset the tax world. Perhaps this has been further compounded this year by the fact that we have had two budgets in 2015, adding to the burden of keeping tax knowledge fully up-to-date.

What is clear is that unlike a few years ago, there is no shortage of clients in the market. And a clear trend towards diversification of practices has meant that not many firms are struggling to find suitable work to undertake. As such the competition is likely to become much more focused on how clients are serviced and what added value can be offered.

How significant are each of these to your current business



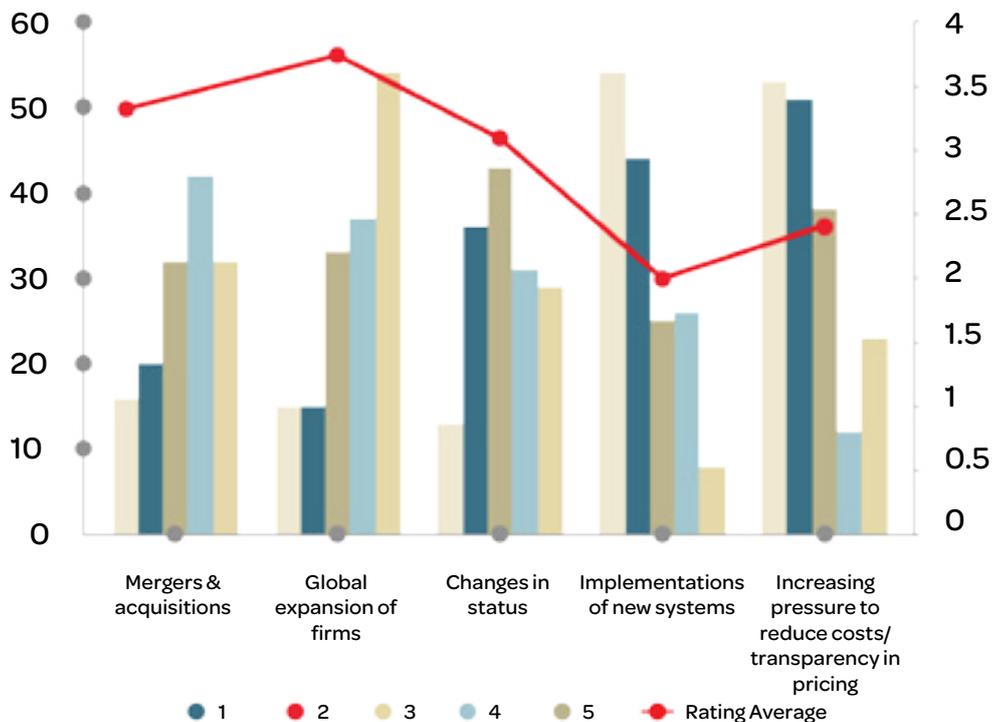
What the future holds

Technology is not only playing an increasingly important role in the tax and accountancy profession at the moment but is believed to be the one thing that will have the biggest impact over the next five years. The Government’s Digital Strategy is likely to have influenced part of this decision but not all of it. Technology in general is playing an increasingly important role in all areas of practice, from practice management and workflow right through to information access and learning.

The drive to reduce costs and be more transparent in pricing structure was the second biggest factor that the survey revealed as a driver for the next five years and this also, in some way, relates to technology. Modern systems can help reduce costs, manage and allocate time, enable work and learning to be conducted faster and help communicate with clients so that they have more sight and control over what costs are accumulated where.

It is likely that the Government Digital Strategy has also been the driving force behind the opinion that a change in status will be the third biggest driver of change over the next five years. With much talk about ‘trusted agents’ being the only people who will be allowed access to their clients Personal Tax Accounts, many are seeing this as regulation via the back door. Whilst it is unlikely that the tax profession will be fully regulated within the next five years, this idea of a ‘trusted agent’ has captured the imagination of the profession and conversations up and down the country are rife with speculation as to what exactly this will mean. At this point in time no-one can honestly say. Only time will tell.

What changes or trends do you expect to see in the tax industry over the next five years? Please rank in order of impact, where 1 will have the most impact and 5 will have the least impact.



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