Written evidence submitted by Sage (BBP0017)

1) Introduction

Sage is a FTSE100 technology company and the global market leader for software that provides small and medium businesses (SMEs) with the visibility, flexibility, and efficiency to manage finances, operations and people. This technology includes integrated accounting, payroll and HR native cloud systems, as well as on-premise and connected cloud.

We are passionate supporters of the UK's small and medium sized business community. Our 2,500 Sage colleagues in the UK support over 1 million SMEs through our products, partners and advice.

At Sage, we have a long history of supporting customers through major compliance changes, with recent examples including GDPR and MTD. We are working hard to ensure our relevant products will support compliance with changes resulting from the end of the transition period in specific areas, such as VAT, record keeping and invoicing.

In addition, we will be helping customers prepare for the end of the transition period in the coming weeks through advice and signposting to Government resources on our Sage UK transition hub.

Between now and the 31st December 2020, we are urging Government to take measures to ensure the UK's transition to our future trading relationship with the EU meets 3 core principles:

1. UK businesses are given a fair and realistic amount of time to adjust operations to whatever new relationship is determined, reflecting that businesses will have been distracted by COVID-19 impacts in recent months and will need to continue focus on immediate business survival and recovery.
2. The economy must be protected from additional shocks as we come out of COVID-19 disruption, and the path to economic recovery and trade resumption must be kept as smooth as possible.
3. Complexity and operating uncertainty for SMEs must be kept to an absolute minimum.

This submission from Sage highlights the context of SME readiness as we see it at the time of writing (30th November 2020), along with additional measures that policymakers can take to meet these principles and ensure minimal disruption to business operations from January 1st.

2) Current context of SME preparedness for the end of the transition period

At Sage we are currently running an updated poll on SMEs preparedness and remaining areas of concern relating to the end of the transition period. We would be happy to provide these findings to the Committee soon once the research has been completed.

In the meantime, as a general indicator of readiness, when Sage polled SMEs on this issue in June 2020, just 54% said they were prepared for challenges ahead such as Brexit[1]. This shows almost half of SMEs did not feel they had taken adequate preparatory measures with around 6 months to go until the end of the transition period.

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[1] Survival, Resilience & Growth, report by Sage published July 2020, https://www.sage.com/en-gb/blog/wp-content/uploads/sites/10/2020/07/Survival-Resilience-And-Growth-Report.pdf. Polling of 2000 SME decision makers conducted between 18th June 2020 and 22nd June 2020

A more recent survey undertaken by EY and published in the Times newspaper in October 2020 showed just 13% of businesses felt they are prepared for the end of the transition period[2]. It is easy to see why in the weeks and months since June, there likely remains a significant risk of the UK's SMEs being reluctant or unwilling to undertake preparatory measures.

Firstly, the Covid pandemic continues to disrupt SMEs and place additional strain on the time resources of businesses. It is no secret that SMEs are time-poor in the best of circumstances and face additional challenges when it comes to major regulatory changes, given they lack the capacity of larger corporates to designate project teams to ensure readiness and compliance. The usual time pressures faced by SMEs will only have gotten worse due to the significant disruption caused by the coronavirus pandemic. SMEs are likely to be even more stretched than usual, focusing on what actions they need to take to keep their businesses afloat in the "here and now", rather than preparing for compliance changes ahead.

Secondly, it cannot be ignored that the financial impacts of Covid will have lessened many SMEs' ability to make their required investments in business readiness. It is known that the end of the transition period will mean many SMEs will incur new costs. These will vary by business, but examples include securing support from customs experts, appointing fiscal representatives in Europe, consideration of additional VAT registrations, or securing safety stock and storage space to mitigate against potential supply chain delays. Our recent SME polling from September 2020 shows that SMEs ability to invest has been reduced significantly during the pandemic. 1 in 2 SMEs said they have no money to invest in anything new at the moment[3]. These investment constraints may have gotten worse in recent weeks, as this polling was conducted before the reimposition of many of the toughest Covid restrictions in November, and the stricter Covid tiering system set to be introduced on the 2nd December.

Thirdly, despite the ramping up of Government messaging reminding businesses there are actions that can be taken now to get ready, there remains a significant risk that businesses believe they can or should only invest time and resources once the outcomes of negotiations are concluded. With the outcomes of negotiations still not finalised roughly a month before the end of the transition period, businesses waiting for final certainty on the nature of the UK and EU's future trading relationship will now face a very tight window in which to prepare. Additionally, for those businesses who do recognise they can act now, anecdotal feedback has suggested that information on what the changes are and what actions they should take is not always readily available or easily digestible.

Given this context, we urge Government and policymakers to be realistic about SMEs' ability to invest both time and money in preparedness work, or withstand further business disruption as the transition period comes to an end.

2020 has already placed unprecedented strain and uncertainty on many of the UK's SMEs. And at the time of writing, 30th November 2020, there are still key decisions that need to be taken to resolve the future of what the UK's trading relationship with the EU looks like.

Returning to the three principles laid out in section 1, we believe that further action can be taken between now and the end of the transition period to further these objectives. In section 4, we have

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[2] https://www.thetimes.co.uk/article/just-one-in-eight-companies-brexit-ready-j5g9hj9wr

[3] Poll of 1,011 SME decision makers conducted between 1st September 2020 & 4th September 2020 https://www.sage.com/en-gb/blog/wp-content/uploads/sites/10/2020/10/Investing-for-Recovery-Supporting-SME-jobs-and-growth-through-digital-adoption.pdf

put forward some suggested mitigating measures that the UK Government could implement ahead of the 31st December, to ensure disruption to the UK's SMEs is reduced.

3) Business readiness as it relates to VAT and software

To help illustrate some of the steps that businesses will need to take to prepare for the end of the transition period, we have provided a specific example of the changes related to VAT below.

At Sage we are working to ensure our products are updated or documentation is provided to make this journey for customers easier as far as we practically can. We are also providing further guidance via our online UK transition hub to help SMEs understand changes that may impact their business.

To make sure their business processes are set up to seamlessly continue to trade with the EU from 1st January 2021, SMEs and their accountants will need to take the following steps before 31st December:

- Register for relevant EORI numbers
- Understand how the place of supply rules impact purchase and sales to understand how VAT will apply
- Identify where additional VAT registration and reporting obligations arise in EU jurisdictions e.g. due to loss of EU VAT simplifications.
- Identify whether the country in question requires non-EU established businesses to appoint a fiscal representative, and where relevant identify a fiscal representative to act in those jurisdictions
- Understand the process for reporting VAT, including changes due to the loss of distance selling thresholds to UK exporters to the EU, refund procedures and EU VAT simplifications
- Check the rules on postponed import VAT accounting that allow businesses to account for import VAT on the VAT return
- Understand any cross-border sales and movement reports that will be required and if so, plan who will complete them (e.g. Intrastat arrivals for goods coming from the EU)
- Prepare for new ecommerce changes for the UK effective from 1st January 2021
- Map the systems changes required and identify timeframe for implementation

There are also specific requirements and planning affecting businesses that trade in or out of Northern Ireland:

- If they have sales and purchases that cross the Irish Sea monitor for any VAT and customs changes that impact sales in Northern Ireland
- Understand whether any reduced rates or exemptions in NI will be changed to align with Republic of Ireland rates
- Identify those transactions which fall into the remit of the Northern Ireland protocol
- Check VAT registration number requirements in NI in light of the Commission's guidance that a specific NI number will be required when communicating with EU businesses

The changes resulting from the end of the transition period are complex. In certain areas relating to general VAT changes and processes specifically affecting NI-GB trade and NI-EU trade, this process has been further complicated by the detail of these changes only arriving shortly before the end of the transition period.

For example, updated guidance from Government on the VAT registration number requirements for Northern Ireland was only issued towards the end of November 2020.

The issues raised in section 2, and updated guidance in certain areas arriving only a handful of weeks before the end of the transition period, means many SMEs will now be facing an incredibly short window to get ready before the deadline on 31st December.

Organisations who use business software, particularly cloud solutions, will be better equipped to get ready for these changes. However, a software update alone does not ensure business compliance. The end user needs to take time to understand what has changed and that they are able to use software functionality appropriately to meet their obligations. There will be a need for businesses to make changes to their policies, procedures, and registrations.

Business readiness in these areas will also vary depending on what type of software a business uses. For businesses who use cloud software, the updates will automatically be deployed the next time they log in online. Businesses who use on-premise software tend to experience a more complex journey when implementing software updates. When a software provider develops an update for an on-premise solution, they rely on the user deploying the update. This means the end user, rather than the software provider, ultimately determines the final time of deployment.

Typically a busines using on-premise software will update their solution once a year, due to factors such as the need to integrate with different software vendors, the internal cost of testing or time taken to deploy the update. Under normal circumstances, expecting a significant proportion of businesses to implement an update six months after providing it represents an ambitious timeline. Depending on the level of customisation of a solution and the complexity of a business, these updates may also incur varying degrees of additional cost.

In the case of the end of the transition period, in order to be ready businesses would have to deploy updates in the space of days and weeks. While software vendors will do all that is practically possible to encourage users to deploy updates within this timeframe, past experience shows that it is unlikely all SMEs will have factored in software updates to get ready for the end of transition period into their business planning. And for those who have, they will still need to spend time to understand what changes have occurred and how this will impact their usual processes.

Given the complexity of these changes, and in certain cases advice from Government arriving with little notice before the end of the transition period, it is likely that mitigating action from Government will now be necessary to ease the transition for SMEs. Below we have suggested what measures Government can take to minimise business disruption in these areas and ensure a fair window for businesses to comply.

4) How Government and policymakers can mitigate against disruption

At Sage we will do absolutely everything we practically can to build product solutions to aid compliance in the areas our products support. We also plan to continue to provide further guidance with top tips and best practice to help SMEs get ready. We have already begun to offer free guidance to SMEs, for example in November 2020 Sage hosted two webinars into business preparedness that were attended by over 2,000 businesses and accountants.

But, as mentioned in previous sections, even in the areas where Sage is providing product based solutions to help customers with compliance, ultimately businesses affected by the end of the transition will need to be very engaged to understand what is changing and be equipped to use their software appropriately. The processes and engagement required to meet compliance demands that we have outlined in section 3 do raise questions as to whether it is realistic to assume that every SME will be ready for the end of the transition period on 31st December.

Therefore, taking together our concerns outlined in sections 2 & 3, here we wanted to suggest some constructive measures that Government could take to ease the burden on SMEs. These will help ensure appropriate efforts are taken to meet the guiding principles we set out in section 1.

The Government has already taken some very welcome steps to phase in certain compliance changes related to the end of the transition period that will help to meet these principles. The introduction of customs checks on goods imported from the EU over a six-month period is an excellent example of this.

However, being ready for the end of the transition period requires more than being just ready for changes to customs checks at the EU/UK border, or simply updating your software with an aim of meeting VAT compliance demands.

To ensure minimal business disruption and that businesses do not suffer financial penalties for genuine error, we would suggest policymakers work with HMRC to establish the following:

- A "soft landing" period for businesses to adopt and implement changes to the VAT and customs procedures. This will help ensure that business who have genuinely not been able to fully comply due to a lack of operational and funding capacity are assured they will not face further disruption through financial or other penalties.
- This soft-landing period could also include a relaxation of the rules around manual adjustments under MTD for VAT. This may help those businesses who are still working through how to correctly reflect transactions in software, especially those who have not yet upgraded to 'Brexit ready' software.

If agreed with a clear future deadline for full compliance (perhaps 6 months to maintain alignment with phased customs checks), this could minimise business disruption without undermining HMRC's need to quickly migrate businesses to the new reality.

To mitigate against fraud and to ensure the soft-landing period is not used by businesses to simply delay their engagement with necessary end of transition changes, HMRC could also require evidence from businesses that they are making genuine effort to comply. Following the precedent set during the compliance changes associated with MTD for VAT, this evidence may include documented plans, timelines and (where appropriate) costings of the steps needed to change their internal process, software and procedures.

Whilst there are clearly limitations in the business support the UK government can provide in relation to obligations imposed by the EU, a mutual agreement on soft landing concessions for businesses that are making genuine efforts to adapt to new requirements would assist both EU and UK businesses.

November 2020