

xero

Everything you need to know about bridging software

(and why it's not likely to be a suitable long term solution)



Bridging software

What is Making Tax Digital?

Making Tax Digital (MTD) is a government initiative to digitise the way businesses manage tax. It's intended to:

- * make filing tax easier for businesses
- * minimise the time taken to enter VAT returns manually
- * give businesses better financial control overall.

Since April 2022, all VAT-registered businesses have been required to keep digital records and submit their VAT returns using HMRC-recognised software.

Cloud is the key for MTD

Understanding the value of having clients on cloud-based software is more important than ever. Bridging software will ensure compliance, but there are so many time saving benefits that you and your clients will miss out on. With the manual manipulation required, and the extra time that filing tax returns takes, this is not likely to be a scalable solution for your practice either.

What is bridging software?

Bridging software communicates with HMRC's systems for Making Tax Digital purposes and allows the relevant information to transfer through to HMRC from a spreadsheet format.

How does bridging software work?

Currently, many businesses use spreadsheets and enter their VAT return manually into a government gateway. This manual entry is no longer allowed. The bridging software acts as a middle man, creating a digital link between the spreadsheet and HMRC.

What is a digital link and why is it important?

A digital link is an electronic or digital transfer or exchange of data between software programs, products or applications. In plain terms, this means that you can no longer manually enter your VAT return into the HMRC gateway, this will have to happen in an automated way.

Both cloud and bridging software can act as a solution for this, however there are distinct efficiency advantages of using HMRC approved software such as Xero over bridging solutions.



Submitting MTD for VAT with bridging software vs Xero

Bridging software steps

- 1 If using desktop software, the client must export their return figures and save it on their desktop.
- 2 You then need to access your online account with your chosen bridging supplier.
- 3 There will then be a facility to upload your exported VAT 100 into your bridging software account.
- 4 The bridging software will read the uploaded VAT 100 and automatically populate the API enabled VAT 100 in their system.
- 5 You will then be able to upload your VAT return from the bridging software.

Xero users steps

Your data is already populated and formulated as it is needed to comply with MTD for VAT. All you'll need to do is have a quick review and hit submit.

Xero's real time connection to your bank feed and machine learning means that the process will become more and more automated each time you complete the task.



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Be mindful that using bridging software can be tricky as you'll have to input a specific format to ensure compliance with digital links. By continuing with spreadsheets your practice and your clients will not be enjoying the true benefits of digitising tax through MTD.

Allan Davidson 'The Compass'
Xero Partner Consultant

Bridging software

Does Xero offer a bridging software solution?

Yes. Xero has a bridging software solution that transfers relevant data from spreadsheets. While we wouldn't recommend using this (or any bridging software) as a long term solution, this can be a great interim option if you have multiple clients using spreadsheets that you want to move onto Xero but insufficient time to onboard them. Our bridging software can also be used to submit VAT returns for VAT groups.

What are the specific efficiency advantages that Xero offers that bridging software does not?

* **Increased automation:**

Xero will automatically generate the VAT return from the bookkeeping. So, if you record all transactions, expenses and invoices correctly, you don't need to struggle with complicated calculations to get the VAT return in order. You keep HMRC happy, without the stress of worrying about your submission.

* **Consolidated effort:**

More clients using cloud software means your practice can manage more clients through one singular process. This will make it far easier for new team members and faster for your practice overall.

* **Avoid increased complications of MTD requirements:**

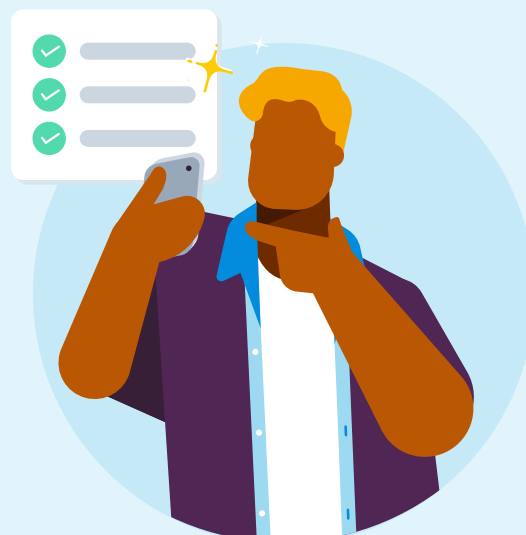
Getting clients' digital records ready for MTD for VAT will put you in good stead for future digital-record keeping. [MTD for ITSA](#) and Corporation Tax will become increasingly complicated for spreadsheet users, costing you more and more time going forward.

* **Easy access to digital receipts:**

By using data capture technology such as Hubdoc all you need to do is upload a picture of the receipt into Xero and you're sorted. There is no need to manually input information. They simply live in the cloud. If you use bridging software, you'd still have to keep the physical receipts.

* **Grow your practice:**

By onboarding more clients to cloud software, the time you'll save has the potential to allow you to take on even more clients without increasing your overheads.



Bridging software

The pitfalls of bridging software for your clients:

For clients using spreadsheets, implementing bridging software and sticking with what they know might be the less confronting option. But they may be doing themselves a disservice by not capitalising on the wider benefits offered by cloud accounting.

Here are some of the key reasons that small businesses shouldn't view bridging software as a long-term solution for MTD:

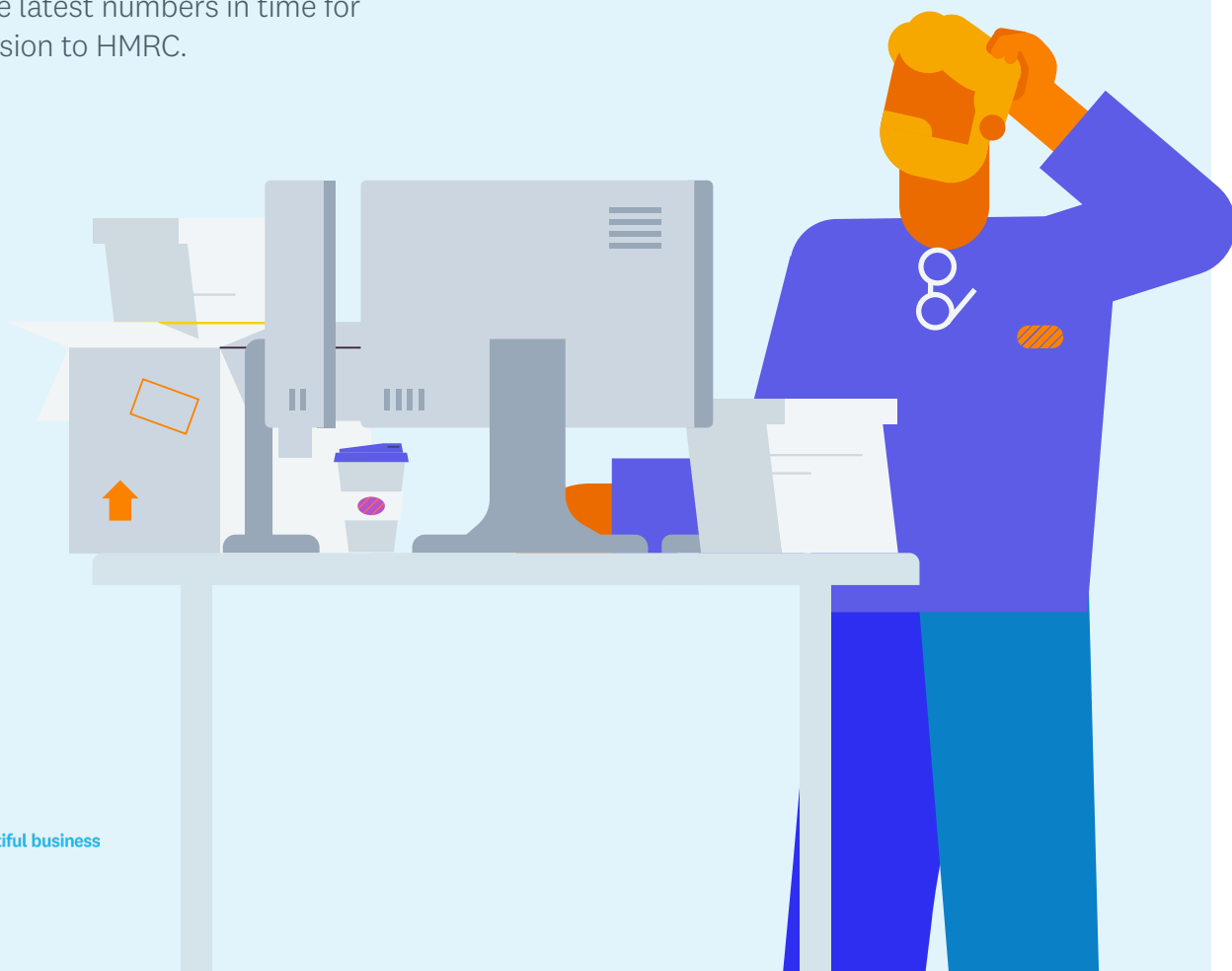
- * On its own, bridging software does not fulfill the other requirements of Making Tax Digital, such as digital record keeping and maintaining digital links between data. Additionally, businesses or your practice may have to perform further calculations to get spreadsheet data into the format required by the bridging software.
- * Bridging software is not an end-to-end MTD solution. For other MTD compliance requirements, such as electronic record-keeping, you still need to use your spreadsheet or non-compatible bookkeeping software.
- * The level of insight into business finances, compared with online accounting software, isn't possible with a spreadsheet, even with bridging software.
- * By using bridging software, you still need to keep copies of all business receipts. You could instead store files digitally with Xero.
- * Many bridging software solutions don't feature in-product guidance checks, nudges and prompts. For example, Xero posts notices of HMRC's planned maintenance periods, and prompts for late claims and unreconciled statements. These all help to increase efficiency of the VAT return process.
- * Overall, bridging software doesn't offer clients the tools they may require to run their business on a day-to-day basis. Tools such as invoice generation, bank reconciliation, quotes, bills and capturing bills and receipts are available within accounting software such as Xero.



Bridging software

The pitfalls of bridging software for your practice:

- * MTD should be viewed as an opportunity to convert your more resistant clients to cloud software. The more clients you switch, the more you as their advisor have access to up-to-date and accurate numbers without having to chase.
- * Having multiple clients using bridging software costs your practice valuable time manipulating and sense checking inputs. Doing this will allow you less time on the value adding aspects of advising as you spend more time on administrative tasks.
- * Rather than dealing with live data, you'll have to chase clients multiple times per year to make sure their inputs are up to date and you're working with the latest numbers in time for submission to HMRC.
- * Many bridging software tools don't offer a central place to view all of your clients' VAT returns at a glance. Within Xero, [Xero HQ VAT](#) provides up-to-date visibility, control and insight into clients' VAT returns with HMRC. This helps save time and hassle by providing a panoramic view when clients' MTD for VAT returns are due.
- * The typical bridging software tool doesn't continually adapt its product to meet the evolving needs of customers. Xero is continually updating its product in line with customer needs and regulatory changes.



Bridging software

Making Tax Digital is about more than just compliance

MTD shouldn't be viewed as an arbitrary HMRC obligation. It's key to businesses getting their tax right and gaining better visibility on their finances. And for accounting firms, it's an opportunity to move more resistant clients onto cloud software. The more clients that you can convert from this group, the less time you'll spend chasing receipts. Instead, you can spend that time on higher value advisory work – or doing something you love!

While bridging software makes clients compliant, the time-saving benefits of cloud software far outweigh the additional costs for most businesses. In your conversations with clients around MTD compliance, talk about the benefits of cloud software as a whole – it's not just a compliance solution.



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I'm yet to meet a firm who have regretted the decision to adopt cloud software for MTD. In doing so you're afforded the chance to automate and streamline your processes and collaborate closer than ever before with the clients you look after. All the while giving your clients the opportunity to have greater insight into their business, get paid faster and manage their cashflow from one place.

Michael Ovens 'The Compliance King'
Xero Partner Consultant

Bridging software

Additional benefits of Xero that your clients will love:



Expenses



Bill payments



Mobile app



Direct bank connections



Invoicing



Project management



Inventory



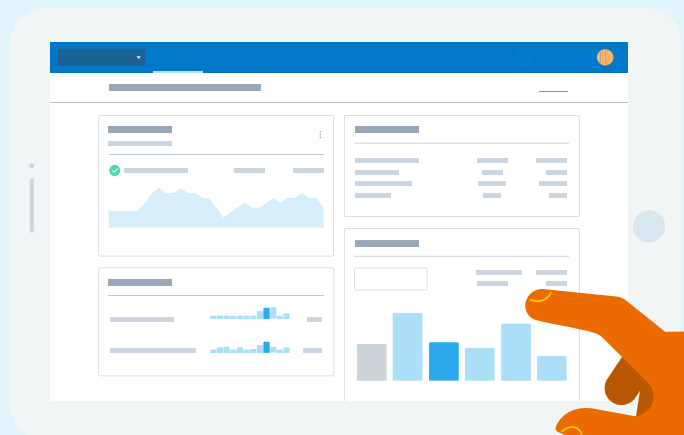
Bank reconciliations



Payroll



Online VAT Submissions



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