

Delivering effective capital allowance reporting

When the Royal Mail Group needed to update its capital allowance and chargeable gains reporting, it turned to tax technology specialists Tax Automation and its Capital Assets Database (CAD) system. Tax Automation also delivered a bespoke development project to help Royal Mail analyse and process huge volumes of data before posting into CAD

Background

Royal Mail Group Limited is the principal trading entity of Royal Mail. Royal Mail Group Limited includes UK Parcels and International and Letters (UKPIL), which comprises the Group's UK and international parcels and letters delivery businesses operating under the 'Royal Mail' and 'Parcelforce Worldwide' brands. In October 2013, Royal Mail successfully floated on the London Stock Exchange and was subsequently admitted into the FTSE 100.

Out of date system

Royal Mail Group had been managing its capital asset reporting obligations using a custom built system that was 20 years old. This software was not supported nor had it been enhanced and was increasingly becoming out of line with legislation, technology and best practice. To work around issues with the system, Royal Mail were required to use ad hoc spreadsheet based processes that were time consuming and cumbersome.

In the run up to flotation, the Corporation Tax team decided that the old system was no longer fit for purpose. The team had to adhere to a very inflexible process and getting data into the system was proving inefficient. This meant it was taking up to nine months to get the capital allowances analysis completed to support the Corporation Tax computations. This was making it difficult to meet the deadline for HMRC submissions.

Dave Cockett, Capital Allowance Manager at Royal Mail, takes up the story:

"We made the decision to see if there was anything that would enable us to run our processes more efficiently. Coincidentally, Tax Automation were mentioned to us by a contact and after initial discussions, we invited Tax Automation in to present their capabilities. As part of our due diligence, two other companies were also invited to present. As soon as we saw Tax Automation's Capital Assets Database (CAD) we knew it was exactly what we were looking for. The level of functionality available is impressive and Tax Automation's knowledge of this complex tax area was clearly demonstrated. In addition we needed to be assured that the huge volumes of data inherent in a business of our size could be handled. Again, Tax Automation was able to provide this assurance."

A bespoke development project

Whilst Tax Automation's Capital Assets Database (CAD) system would enable Royal Mail to better manage its capital expenditure analyses and reporting for Chargeable Gains, Capital

Allowances and tax reporting, there were some areas that required particular attention. It was decided that the implementation project would need some bespoke development to allow the efficient processing of SAP and fixed asset register data and the allocation of percentage based capital allowance claims before posting into CAD. The Royal Mail tax team discussed this in detail with Tax Automation and in 2013 they were appointed to deliver the full end to end solution.

During the development, Tax Automation sat down regularly with the team to get a real in-depth understanding of their needs. Further, using an iterative development approach allowed all Royal Mail stakeholders across tax, IT project management, procurement and finance to keep a close eye on the project and ensure that the goals were met.

Dave Cockett continues:

"We could have had the CAD system up and running from day one but we had a bit of an issue with additional processing and historical data and this meant that there was an additional phase to the bespoke element. Every step of the way Tax Automation would deliver incremental changes, gain feedback and update the system. This way I was not left for months and then presented with a final solution that might not have met my needs. I was involved, consulted, and encouraged to participate through the entire development project."

Data Processing

There are three sources of information that ultimately feed into CAD (via the new CAD Project software):

- A monthly download from SAP of all building project related spend;
- An annual download from the Fixed Asset Register – used as a double check to ensure that all relevant capital spend has been allocated to the correct property; and
- An on-going capital allowances data gathering exercise managed by external Quantity or Building Surveyors who provide Royal Mail with a breakdown of spend into the relevant tax categories on a project/property basis.

Bringing all of this data together and applying a robust, repeatable process allows Royal Mail to gain a much better overview of what has been posted against a project, property or other capital asset.

Dave Cockett continues:

"In SAP we post invoices to a control account and once it is paid it comes out and is posted to one of the ledger codes. So in effect, we pick up both sides for accounting purposes - control account posting and ledger account posting. Now thanks to CAD we do this all in just one posting. The original control account posting is also the only place where we can pick up the original VAT posting. This is important because we don't recover all our VAT. Some of the services we don't charge VAT on and this is a great way for us to preserve our VAT history and be able to track when we need that visibility and understanding."

Adding Value

A major objective of the project was to free up tax staff time to concentrate on more important tasks than pure data processing. Dave continues:

"We were aiming to cut out a lot of the manual front end cut and paste activity because this was open to human error. Thanks to Tax Automation and CAD this has enabled Royal Mail to manage the whole process far more effectively. Now much less of my time is dedicated to doing manual mundane work and I am now able to conduct a proper tax review, adding value and making sure that we are in line with current legislation."

The Results

To sum up his thoughts on Tax Automation, Dave Cockett concludes:

"Tax Automation has been fantastic - very professional, very approachable, very friendly. The team are both tax and programming experts. What is really nice though about Tax Automation is that they don't try and blind you with science. They work with you to find the best way to achieve your end goals. The whole process has been great and after sales service has been superb. Tax Automation really is just a phone call away to resolving any issues very quickly. Additionally, Tax Automation hosts our system as Software-as-a-Service which means they can react far quicker to any little changes or issues that fall out now that we are using it in earnest."