

# Tax investigations update.



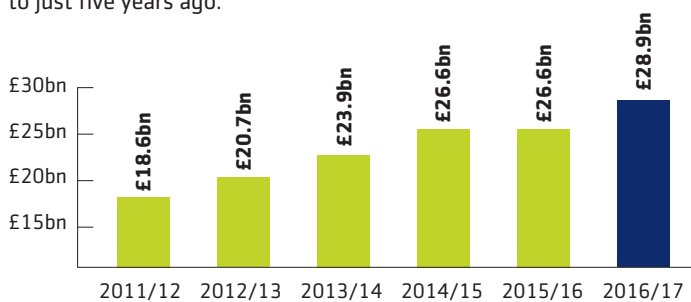
McDade Roberts  
Expect more...



## Another year, another record compliance tax take



During the last financial year, HMRC delivered £28.9bn from compliance activity into businesses large and small, individuals rich and poor. HMRC's number one objective is to maximise revenue and it is doing just that, bringing in an extra £10.3bn a year compared to just five years ago.



Over recent times, HMRC has changed tactics and now targets the behaviour of businesses by size – large, medium and small – underpinned by an increased risk assessment capability from gathering more data from external sources.

Individual taxpayers are also approached differently with HMRC's High Net Worth Unit focused on the wealthiest 8,500 individuals in the UK. Landlords are a particular favourite because of the property transaction information HMRC receives from the Land Registry, supported by voters' list entries and housing benefit payments.

There will be no let-up in HMRC's approach as it restructures both the number and location of its offices and IT resources to achieve what it calls 'data-led compliance ambitions'.

### Tax disputes

Unsurprisingly, as HMRC tries to squeeze more tax from businesses and individuals, tax enquiries can often result in a stalemate where settlement is difficult to achieve.

HMRC offers what is known as alternative dispute resolution (ADR) when an impasse has been reached and an amicable conclusion to an investigation appears out of reach.

The jump in applications for ADR in 2016/17 gives an indication as to how tortuous some enquiries can become and how businesses and individuals desperately search for a route to a fair outcome.

	2015/16	2016/17
Total applications	581	1,265
Cases resolved through ADR	95%	79%

As the table shows there has been a sharp drop in the number of cases resolved through ADR, which gives an insight into how much of a battle tax enquiries can be.

To make matters more uncomfortable, the longer investigations take to settle, the higher the professional costs. That is where our tax investigations protection helps. It provides a safety net and ensures all your professional fees are provided for in the event of an enquiry, as that elusive settlement is fought for.



There are **2,100 large businesses in the UK**, with an annual turnover typically exceeding £200m.

Around **170,000 businesses are medium in size**, with a turnover between £10 and £200m.

More than **5m small and micro businesses** comprise the biggest group of all.

**10m people are within self-assessment**, including the 8,500 wealthiest individuals.

**Large businesses** have the most complex tax arrangements and HMRC keeps a particularly vigilant eye on this sector, with almost half of large businesses under enquiry at any one time.

The merchant acquirers' information, where HMRC receives reports of credit and debit card transactions, has proved a lucrative source of data when investigating **medium sized businesses**. HMRC is told the number and value of transactions by the card payment processors – the merchant acquirers – and then takes a look at how much cash has been taken as a proportion of the turnover declared.

There is little doubt **small businesses** suffer the most during an enquiry though, mainly because they often do not have the same in-house resources available to fight HMRC. Whether a tax investigation, a VAT inspection or PAYE payroll based check, it costs time and money to deal with each one. Sometimes HMRC conducts all three at one time and calls it a 'cross tax enquiry'.

From HMRC's viewpoint, **small businesses** make the most mistakes and are the cause of a large proportion of the tax gap.

The tax gap is the estimated difference between the amount of tax HMRC actually collects and the amount that in theory it should collect.

HMRC's compliance effort is not just focused on businesses. **Individuals** can be selected for investigation too.

The most common enquiries focus on:

- Rental income
- Bank or building society interest declared
- Capital gains tax declarations

The tax affairs of the wealthy are more complicated. Foreign income and residency and domicile issues tend to arise, alongside capital gains and investment income questions, when HMRC launches an investigation into the rich.

#### Large businesses



Generated £8.0bn in compliance money



Responsible for £6.7bn of the tax gap



Contribute 40% of total tax receipts

#### Medium businesses



Generated £3.3bn in compliance money



Responsible for £5.2bn of the tax gap



140,000 registered for corporation tax

#### Small businesses



Generated £5.0bn in compliance money



Responsible for £15.8bn of the tax gap



Employ 11m people in the UK

#### Individuals



Generated £3.5bn in compliance money



Responsible for £3.4bn of tax gap



Brought in £2.5bn from the wealthiest since 2010

It will never happen to me. There is nothing wrong with my records. I'm too small for HMRC to worry about; HMRC has bigger fish to fry. HMRC should concentrate on the tax avoiders and leave me alone.

These are the comments frequently made by businesses and individuals up and down the land, representing a combination of defiance, perceived unfairness and the view HMRC will always investigate someone else.

**Tax investigations protection... it is the sensible decision.**

#### Subscribe today

Our tax investigations package offers businesses and individuals protection to ensure that in the event of an HMRC enquiry all our accountancy fees in dealing with the enquiry are provided for.

Our tax investigations package offers:

- Up to **£75,000** of accountancy fees
- Full representation to HMRC on your behalf including handling all correspondence and interaction, along with attending any HMRC meetings
- Comfort and peace of mind that we can provide a robust defence against HMRC