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Avoiding the lottery of the taxman

HMRC investigations of any kind are costly in time and even more costly in the emotions they engender and the distraction they cause in the running of your business. So is it possible to avoid having a Tax Inspector crawling all over your business?

First priority is to have an impeccable record of submitting all tax returns on time. This applies not just to the personal self assessment or the corporation tax return but also covers your employer returns such as the P35, the P11Ds and any regular VAT returns that you have to make.

Number two is to always ensure that your returns are accurate and complete. HMRC have a wide range of information gathering powers and receive large amounts of information from third parties about amounts that might be paid to you. The omission of interest credited to bank accounts from returns is common and is a regular reason for HMRC to start an enquiry.

Number three would be to look at your business accounts when they have been prepared and try to explain any significant changes from the previous year. HMRC will look at trends in accounts and also compare them to results from other traders in your line of business. Consider providing explanations when the return is submitted that might prevent questions being asked. Dramatic changes in turnover/gross profit rates will really ring alarm bells when drawings taken from the business or remuneration paid seem to be insufficient to meet perceived living expenses.

Major changes in any other significant expenses may also need to be explained and you should always

ensure that your stock or work-in-progress at the year-end has been given some careful thought.

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HMRC have new powers from April 2009, which will alter the way in which they carry out investigations. They also have a new penalty regime that will inevitably mean that the level of penalties charged where tax has been lost due to negligence or deliberate action on the part of the taxpayer will increase.

If you have any concerns about these new powers, please do not hesitate to contact us.



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