

Tax investigations update.

**Think you're invisible to HMRC?
Think again!**



Not so long ago HMRC's priorities included improving customer service and ensuring that individuals and businesses were only asked to pay the right amount of tax at the right time.

However, we now live in a harsher reality. HMRC's key objectives have changed and include the target to 'maximise revenues due' and 'to transform tax for our customers'.

Making Tax Digital

The transformation is coming in the form of Making Tax Digital (MTD) which will, ultimately, see the end of the tax return.

By 2020, it will be mandatory for most businesses and landlords to keep their records digitally using MTD compatible software and to report accounts information to HMRC every quarter.

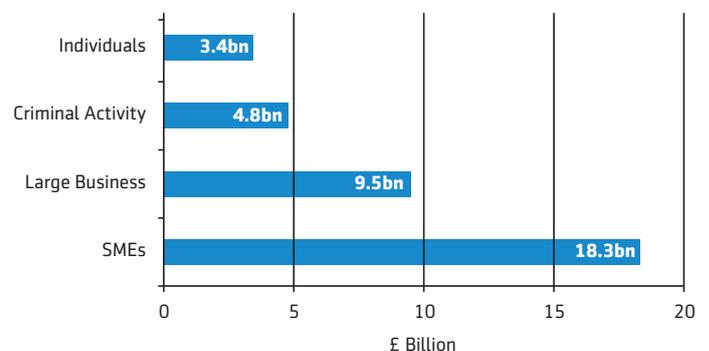
Over 5 million businesses and 4 million individuals already have access to digital accounts with HMRC.

But, even then, one of the primary reasons HMRC is launching MTD is to close the tax gap and maximise revenue.

Tax gap

The tax gap is the difference between the amount of money HMRC actually collects and the amount it believes is due.

According to HMRC's latest figures, the tax gap currently stands at £36bn and is broken down as follows:



In simple terms, HMRC believes over half of the tax gap is attributable to SMEs failing to declare accurate and complete accounts figures. With the introduction of MTD and quarterly reporting, HMRC expects the number of errors to decrease and will challenge businesses far earlier if figures appear to be inaccurate.

Enterprise Data Hub

HMRC has built an Enterprise Data Hub (EDH) which will house all of the information it holds on people and businesses. Just to put this into context, HMRC has compared this to storing and managing 10 million filing cabinets worth of data.

Most people are aware, for example, that banks and building societies report interest figures to HMRC and the Land Registry reports property transactions. The EDH has more advanced capabilities though and is going to be able to store all types of data, including structured, unstructured, log files, pictures, audio files, communication records and email.

All of this means HMRC will be able to 'work smarter', able to risk assess individuals and businesses for enquiry much quicker and yes, you guessed it, 'increase our tax revenues'.

Current trends

1. The government is cracking down on the so called 'gig economy'. This is where people work on a self-employed basis, in temporary positions for organisations, typically for short periods of time. HMRC is setting up a new team to test what it regards as false self-employment.
2. In a similar vein HMRC is disputing the status of drivers, such as road haulage and coach drivers. HMRC wrote to the Road Haulage Association recently saying it was concerned about haulage companies wrongly treating workers as self-employed or hiring workers through their own companies.
3. Loss making farming businesses are being targeted by HMRC to see if they are genuinely being run on a commercial basis. If losses are made for more than 5 years in succession, HMRC will usually seek to restrict the losses, unless the farmer can provide evidence of a realistic expectation of a profit.

By tax group

Large Business

There are around 2,100 large businesses, each with an annual turnover of more than £200m.

These include UK national businesses and multinational corporations with a UK base and they account for around £200bn, or 40% of total tax receipts.

Almost half of large businesses are under enquiry at any one time by the 2,400 staff in HMRC's Large Business directorate. This level of enquiry activity is unlikely to fall anytime soon, especially as HMRC believes large businesses are responsible for £9.5bn of the tax gap.

Wealthy Individuals

HMRC's High Net Worth Unit (HNWU) closely monitors the 6,500 wealthiest individuals in the UK.

Until recently the HNWU had around 380 staff and focused on individuals with a net worth of at least £20m. However, HMRC has decided to extend the reach of the HNWU to include taxpayers with a net worth of more than £10m.

Another 129 members of staff are going to be recruited to monitor the additional 2,000 taxpayers with a net worth between £10m and £20m.

Around a third of high net worth individuals are under enquiry according to the latest figures available.

Mid-sized Businesses

There are around 170,000 mid-sized businesses in the UK with an annual turnover of between £10m and £200m.

As these businesses grow and their tax issues become more complex, it is not unusual for HMRC to launch a cross-tax investigation, where three Inspectors will seek to meet with the business owner. One Inspector will usually want to talk about VAT, with the other two Inspectors drawn from tax and PAYE compliance backgrounds.

Small and Micro Businesses

This is the biggest tax group of all. There are more than 5 million small businesses, which employ fewer than 20 people and have an annual turnover of less than £10m. Micro businesses employ fewer than 10 people, with a turnover of less than £2m.

The number of small businesses has grown by more than half since 2000, with a rapid rise in self-employment and online trading.

As mentioned earlier, HMRC is concerned that not all of this group are genuinely self-employed as drivers for Uber, Deliveroo or Hermes for example. HMRC compliance activity in this area is particularly high and contentious too, especially as some people are happy choosing their own hours, working when they want to and do not see themselves as exploited.

It simply makes sense to have tax investigations protection



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