Tax investigations update.

KEEP
CALM
AND
SIGN
UP

Following the outcome of the General Election, the victorious Conservative Party is now planning to deliver the manifesto pledges it made during the campaign. One of those key pledges included a promise to collect at least an extra £5bn from tax evasion and tax avoidance.

In this update we highlight HMRC's approach, existing targets and latest published results, as well as some of the risks which trigger a tax enquiry.

Approach

Large Business, Specialist Personal Tax and Enforcement & Compliance are the divisions within HMRC which deal with the majority of taxpayers.

A three dimensional approach is adopted to tackling tax at risk within these divisions and focuses on the:

- Taxpayer group
- Taxpayer behaviour
- Tax Product

In very simple terms, this means an enquiry could start because an individual or business falls within a particular trade, profession or type, or HMRC has identified risks with a particular product. For example, in April 2014 a national Business Premises Renovation Allowance risk profile was produced, which focused on the identification of participating partners.

Headlines

The last full year results published by HMRC cover 2013/14 and show how the approach is paying off...

- **£845m collected from self-assessment enquiries, up from £609m the year before.**
- **£137.2m from the Affluent Unit, which concentrates on people with a net worth of between £1m-£20m.**
- **£286m from the High Net Worth Unit, where 400 staff target individuals with a net worth in excess of £20m.**
- **£5.9bn from some of the UK's largest 2000 businesses.**

HMRC is currently targeted to bring in compliance revenues of £26.3bn in 2015/16, but that figure is likely to increase to meet the manifesto commitment.

Mortgage Referrals

HMRC, the Council of Mortgage Lenders and the Building Societies Association came together in September 2011 to launch the Mortgage Verification Service.

Where a mortgage applicant has been unable to supply adequate evidence of income, the mortgage lender can approach HMRC and ask for verification of the income. HMRC checks the tax returns received and employment data for the mortgage lender, but also risk assesses what it has seen. If the mortgage applicant has said their income is £50,000 on their application, but only declared £20,000 to HMRC, potentially either mortgage fraud is taking place or HMRC has a tax shortfall on £30,000 to pursue.

Since the service went live, the number of referrals made to HMRC has increased sharply:

2011/12 386
2012/13 1819
2013/14 5969
2014/15 7763

Triggers

A tax enquiry can start because an individual or business falls within a particular group or has claimed a certain tax relief. However, an investigation can also be launched by HMRC because of a straightforward mistake on a tax return, such as an incorrect amount of bank interest declared, through to more serious risks involving deliberate actions to evade tax.

Small and medium sized businesses can be selected for enquiry because their turnover appears to be too low based on the credit and debit card payment data passed to HMRC by the merchant acquirers who process the transactions. Alternatively, a business may be chosen because it consistently trades under the VAT registration threshold or handles a lot of cash. On the other hand, HMRC may be concerned about some of the expenditure being claimed, in particular motoring related costs if a mileage log has not been maintained or whether a director's loan account accurately reflects payments made to or on behalf of a company director.

Connect is HMRC's state of the art analytical system which holds 30 different data sets of information, ranging from property transaction details provided by the Land Registry, bank account details, mortgage application referrals and even reports given to the Tax Evasion Hotline.

Tax Evasion Hotline

People can also contact HMRC will their own suspicions concerning potential tax evaders and do so in large numbers:

Contact type	2013	2014
Written/Post	18820	17640
Telephone	42611	37259
Email/Digital	19888	29952
Total	**81319**	**84851**

It is not uncommon for disgruntled former employees, jilted wives, husbands and partners, jealous neighbours and business competitors to contact HMRC to file a report. All of the reports are fed into Connect and form part of the risk assessment process.

Penalties

If an error is found within a tax return, HMRC then consider whether a financial penalty should apply. The penalty is based on the additional tax due and the behaviour giving rise to the error. If HMRC accepts reasonable care was taken, no penalty will be charged but if the error is symbolic of careless or deliberate behaviour then an escalating amount is charged based on a percentage of the additional tax due.

Year	Total deliberate	Total no of penalties	Percentage deliberate
2010/11	465	7859	5.92
2011/12	1045	14191	7.36
2012/13	2332	9504	24.54
2013/14	5477	15135	36.19

Subscribe Today

HMRC is under pressure to collect more money and does so by focusing on groups of individuals and business groups, by tax relief or product and by using Connect to bring all of the risks together. And then, once an error has been identified, a harsher, more expensive penalty regime is in place.

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

Our fee protection package offers:

- **Up to £75,000 of accountancy fees**
- **Full representation to HMRC on your behalf including handling all correspondence and interaction, including attending any 1-1 meetings**
- **Comfort and peace of mind that we will fiercely defend any enquiry into you or your business**