

PEARSON MAY

CHARTERED ACCOUNTANTS & CHARTERED TAX ADVISERS
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37 Great Pulteney Street, Bath BA2 4DA
T 01225 460491 F 01225 469775 E mail@pearsonmay.co.uk
www.pearsonmay.co.uk

Business record checks for small businesses

H M Revenue and Customs have announced plans for them to visit as many as 50,000 small businesses in 2011 to scrutinise the record keeping.

HMRC have indicated in their announcement that they anticipate raising a very substantial sum of money through fines for those businesses which fail to comply with their requirements.

Based on the level of fines which they have indicated in their statements, it would appear that they expect almost every business to fail and that fines of up to £3,000 per business will thus be levied.

Presumably this is an implication that they will be very strict in their views as to what constitutes adequate records, but whether it will actually turn out like that, remains to be seen.

On the other hand this may be a message which they think will please the Treasury.

Past history has shown H M Revenue and Customs estimating the yield from various tax changes etc as being wildly adrift from the subsequent reality, so hopefully this is another occasion where that will be the case.

Government Departments are these days expected to consider the impact of any proposals on businesses etc, apparently HMRC have calculated that they consider that each visit to a business, which on average they estimate will last half a day, will cost that business £54.

Some of the professional bodies making comments on the HMRC proposals have rejected that out of hand and said that they believe the cost will be at least 10 times as great as that.

Clearly also, if at the conclusion of the visit, HMRC indicate that they wish to levy a fine and the business wishes to appeal against that fine and involves its accountants in that appeal or indeed in

general discussions/negotiations about whether the records are in fact satisfactory despite HMRC's alternative view, then the costs will rise depending on how long the dispute over the level of penalty continues.

One well known Tax Lecturer has commented that she understands that the HMRC instructions tell their staff to ignore the work which is carried out by the accountants annually in respect of Accounts preparation etc., or even assistance with VAT Returns, in deciding whether the records are compliant or not. That seems to be a totally illogical approach as some businesses take the view that the proprietor's time is best spent running his business and that he or she would rather pay the Business' accountant to carry out some of the bookkeeping function, including reconciliations etc. Does that mean that adequate records are not being maintained by the business?

One other comment by a professional body is that the average proprietor of a small business, who has the courage and tenacity to set up a business and is forced to battle daily with a mass of government regulation and red tape does not normally go into business because he or she has good bookkeeping skills. They do their best and their accountant normally finalises the remainder. Will that mean that they are fined?

It remains to be seen whether HMRC will change their approach in the light of the detailed comment which there has been, but presumably only time will tell as to how this progresses in practice.

The above is for general guidance only and no action should be taken without obtaining specific advice ■

Partners: M D Taylor FCA CTA TEP. N S A Oliver FCA FloD. K R S Surry FCA.
D J Richards BA(Hons) ACA CTA. J Bowden BSc(Hons) ACA. J R Rose MMath(Hons) ACA CTA.

Consultants: G W Banwell BSc(Agric) FCA CTA TEP. A T Kerr FCA.

Senior Tax and Trust Manager: J M Diffell FCCA CTA TEP.

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