

PEARSON MAY

CHARTERED ACCOUNTANTS & CHARTERED TAX ADVISERS

Originated 1841

H M Revenue & Customs Increase The Number Of Investigations – Are You Ready?

One of the insurers who provide cover for professional fees in respect of Tax Investigations has reported that in June the number of claims made by their policyholders in respect of new enquiries being commenced was twice as many as in June 2009.

Anyone who submits a Self Assessment Tax Return can be subject to a tax enquiry, if H M Revenue and Customs (HMRC) wish to raise queries about some of the information submitted or apparently have evidence that there is an error or omission.

Also anyone who does not submit a Self Assessment Tax Return can be subject to a tax enquiry, if HMRC believe that they have underpaid tax, possibly by not declaring a source of income or a capital gain which they may have enjoyed.

Obviously, many investigations are in respect of businesses, but a number are into the affairs of private individuals.

HMRC receive information from a number of sources each year where organisations are obliged to provide information to that Department. This includes all banks and building societies who have to make reports of interest which they have paid to individuals, companies etc.

We recently dealt with a situation where the Revenue asked a number of queries about an individual's affairs and his business and they asserted that there was some interest which had been paid gross, i.e. without tax being deducted from it, to the individual and had been omitted from his Tax Return. They would not disclose the name of the bank or building society which had provided this information.

After a considerable amount of research, it transpired that the individual's pension scheme had received some gross interest, which it was quite entitled to do, and it also then transpired that this was the precise amount and source which was being queried by HMRC. There was nothing wrong therefore with the individual's Tax Return which had fully disclosed his income, but he had been subject to a number of queries and associated costs.

Fortunately he had taken out fee protection insurance, to which I have referred above, and the tax enquiry in question was within the

definitions of the policy and thus the insurance company met all of the costs associated with what was a considerable amount of wasted effort.

Under the Freedom of Information Act we asked the Revenue to disclose the details which they had received, as it was of interest to try and find out whether the mistake had been made by the bank or building society by providing a slightly incorrect name to the Revenue or whether the Revenue has misinterpreted the information provided to it. The Revenue took the view that the Freedom of Information Act did not cover these particular circumstances and they refused to provide the information! Our client decided that it was not worth pursuing it further.

The moral of the story is that there are always grave risks of tax enquiries being commenced by the Revenue and at double the previous quantity now it therefore makes having Fee Protection Insurance even more important.

If additional tax liabilities have to be paid at the conclusion of a tax enquiry, the level of penalties added to that liability has increased substantially since new regulations were introduced a year or two ago. The existence of fee protection cover can frequently enable a taxpayer to continue to fight against liabilities which he or she does not think are due, with the insurance company meeting the costs.

In my next article I will deal with recommendations about a number of matters that we can all deal with each year to retain sufficient information so that if an enquiry is launched into our Tax Return or Accounts that we have a lot of the detail which we may need to defend the fact that it was correctly completed in the first instance.

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

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

Consultant: G W Banwell BSc(Agric) FCA ATII TEP.

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

OFFICES IN BATH, TROWBRIDGE AND CHIPPENHAM

Registered to carry on Audit Work by the Institute of Chartered Accountants in England and Wales.
Registered with The Chartered Institute of Taxation as a firm of Chartered Tax Advisers.
Authorised and regulated by the Financial Services Authority for investment business.



CHARTERED
TAX ADVISERS