

# Tax investigations.

**Think you are safe from an HMRC enquiry?... Think again**

HMRC has never been more focused or organised in its pursuit of additional income from tax investigations. During 2013/14, £9.2bn was collected in extra tax from compliance work, including £8bn from big business and £268m from the UK's wealthiest individuals. In total, the taxman delivered £23.9bn last year from cash it collected and loopholes it closed to prevent tax evasion and tax avoidance. The figures highlight that individuals and businesses of all shapes, sizes and wealth are in the line of fire as HMRC looks to achieve a record £24.5bn this year.

## **How does HMRC select investigations?**

### **Connect**

6 Out of 10 enquiries are now selected by Connect, HMRC's data matching and analytical computer system. A billion pieces of data are held on Connect including bank and building society interest details, information from the Land Registry about property transactions and reports made to the Tax Evasion Hotline.

Connect brings all of the data together in the form of a spider's web for HMRC's Risk and Intelligence Service to interrogate and identify relationships between people and organisations. 150 Connect data specialists apply profiling and modelling techniques to look for patterns and behaviours, followed by 3,200 investigators who then consider the tax risks.

When a risk has been identified, the next step is to decide on the method of approach.

### **Campaigns**

If a tax risk is identified across a particular trade or professional sector, HMRC considers launching a campaign to encourage individuals and businesses to voluntarily disclose any under declarations of income within a short window of opportunity.

Once the window has closed, HMRC then begins investigations and considers criminal prosecutions against those traders or professionals it believes should have made a disclosure and who did not. As at 30 June 2014, HMRC had already raised over £933m from campaign related activity into doctors, plumbers, electricians, fitness coaches and online traders to name just a few.

There are three current live campaigns. The Let Property Campaign is directed at landlords, the Second Incomes Campaign is focused on employed people earning additional untaxed income and the Credit Card Sales Campaign is targeted at businesses who receive debit and credit card payments, but who have failed to declare all their income.

## Task Forces

Aside from campaigns, HMRC initiates task force activity where a risk is identified affecting a specific geographical area. A typical task force will involve a multi-disciplined team, drawn from various agencies, who work together for mutual benefit. It is not unusual for task force teams to make unannounced visits on their targets.

HMRC has started 70 task forces since 2011, which have generated around £200m to date. A further 30 task forces are planned for 2014/15 which are anticipated to deliver a further £100m.

Current task force activity is focused on businesses who falsely claim VAT repayments and people who have sold one or more properties and have not paid Capital Gains Tax or declared rental income.



## Benchmarking

HMRC has begun testing the value of publishing 'benchmarks', in an effort to improve voluntary compliance and behaviour.

So far this year HMRC has written to painters and decorators, as well as driving instructors, to tell them what their benchmarking range is and the common risk areas where the most mistakes are made.

In order to calculate the benchmark, HMRC deducts the total expenditure claimed from the turnover declared to arrive at the net profit. The net profit is then divided by the turnover figure and multiplied by 100 to arrive at the net profit ratio benchmark.

For example, all of the tax returns submitted by painters and decorators for the last three years have been analysed to arrive at a benchmark net profit ratio range of between 59-79%. If businesses fall outside the benchmark range calculated by HMRC for their business sector, an investigation is highly likely.

### **It is not only businesses who have been benchmarked.**

HMRC has also been benchmarking tax returns filed by individuals and issued letters questioning the effective rate of tax paid when compared to people with a similar amount of income.



## And that's not all...

There is also a concerted effort by HMRC to clampdown on people who move home regularly, making large gains on each property disposal. More often than not, the home has been developed, extended or improved in some form to create a substantial increase in value. The same transformation then repeatedly happens on subsequent purchases over a short period of time. In these circumstances, HMRC believes there is a taxable trade or a potential exposure to Capital Gains Tax.

Finally, investigators are also testing the commerciality of businesses that consistently make little or no profit, year after year, claiming sideways losses against other income.

## Subscribe today

### **The risk of an HMRC enquiry is a reality.**

Individuals and businesses can be selected for investigation because they fall within a campaign category, a geographical task force area or because their income or net profit ratio appears too low.

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**