

HMRC INVESTIGATION SERVICE

Are you protected?

ArmstrongWatson[®]
Accountants, Business & Financial Advisers
www.armstrongwatson.co.uk



THERE IS AN INCREASING LIKELIHOOD OF A TAX INVESTIGATION

Business is becoming ever more complex which means explaining the intricate and unique tax positions of our clients to HMRC takes more time, incurring more expense as a consequence.

We want to achieve the best possible outcome without you having to worry about the time and costs involved in defending you. Having an expert who understands your business and your tax affairs is key to dealing with HMRC enquiries.

HMRC are using their ever growing resources and powers to undertake their targeted campaigns and cross-tax enquiries in an attempt to maximise the tax they can recover.

Investigations can be intrusive and obstructive to you and your business. We cannot prevent HMRC from selecting you for enquiry, but we can help to minimise their impact and reduce stress by dealing with HMRC on your behalf.

HMRC estimates that from its tax investigation activities in 2021/ 22 the revenue was £30.8 billion. HMRC recruited 4,200 people in 2021 / 22 into its compliance teams. However, given the resources needed to induct, train and mentor the new recruits, it does not expect to see the benefits immediately.

However, for 2022 / 23, HMRC is expecting to achieve compliance revenues up to £39 billion. Its current target is £36 billion for 2022 / 23. With HMRC's continued investment in compliance, ensure you are protected with our comprehensive tax investigation protection.

Without appropriate level of service protection in place it's important to recognise that from the moment the dreaded enquiry letter arrives, professional fees are likely to be incurred as your advisers will be required to help the tax inspector understand your business records and explain any technical adjustments, however, if you choose our services, we will ensure we manage the following:



Check HMRC is entitled to investigate the tax return selected and the enquiry window is still open



Ensure the tax inspector only asks for information and documents relevant to the enquiry year



Respond to all telephone calls, emails, letters, compliance fact sheets and notices issued by HMRC



Provide the inspector the relevant information from our files to enable them to conclude the investigation efficiently



Prepare for and attend face to face meetings with the inspector



Handle any settlement negotiations all the way through to conclusion.

Of course, those are just the fees for responding to HMRC. We will also be talking to you regularly, answering your questions and keeping you informed of our discussions with the tax inspector. It is not uncommon for tax inspectors to change during an enquiry, which 'without protection' can lead to additional fees in assisting the new inspector to get up to speed. It is easy to see how fees can escalate rapidly, so subscribing to our HMRC Investigation Service is a logical and cost effective measure to take

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In the financial year 2020 to 2021, HMRC generated total tax revenues of £608.8 billion, which remains a significant amount despite the impact of Covid-19 on individuals and businesses.

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*Source HMRC performance report 2021-22

HOW THE HMRC FEE PROTECTION SERVICE HELPED

MOTOR RETAILER INVESTIGATION

We acted for a motor retailer who had received a full enquiry from HMRC who focused part of their investigation on what they believed were missing transactions. They reviewed the complete books and records, challenging several transactions as well as the basis of the books and records from which the statutory accounts are compiled. HMRC considered the company's PAYE, Corporation tax, VAT and the individual director's income tax positions.

We were able to attend all meetings, pushing back on the requests for information where appropriate, as well as explain the nature of these transactions as HMRC lacked any depth in this industry. We dealt with the transactions that concerned HMRC, and when the investigation was concluded, there were no adjustments to the accounts.

This enquiry would have cost the client around £11,000, but these costs were fully covered by Armstrong Watson HMRC Investigation Service.



FAMILY PARTNERSHIP

We helped a family partnership in Cumbria, where they wanted to split the partnership between their children transferring assets, including property, between them. HMRC questioned the splitting of the partnership and sought to charge Capital Gains Tax of around £100,000 on the individuals. Armstrong Watson's HMRC Investigation Service covered the family and we were able to challenge the Revenue and provide the legal documents that showed that the transfer of the assets should not be subject to tax. HMRC continued to challenge the treatment for nearly one year before eventually accepting that no tax was due.

The cost of this enquiry would have been around £4,500 for the family, and once again, Armstrong Watson's HMRC Investigation Service paid these costs and allowed us to focus on bringing this matter to a satisfactory close for the family.

WHAT MAKES YOU A TARGET FOR HMRC AND WHAT WILL THEY CHECK

There are several reasons why you might be a target for an HMRC investigation and many can be triggered by changes to your business or simple mistakes including:



Your financials look dramatically out of kilter for a business in your industry or sector



Significant changes in your reported financials including; your income and your business expenses



Incorrect reporting of Pandemic support claimed by you and your business



Your annual tax returns show multiple years of financial loss



HMRC resources may actually have incorrect information about you or your business, which could incorrectly suggest that there is undeclared income or capital gains



Suspicion of undeclared off-shore income



Malicious tip-off

If HMRC launch an investigation into you or your business, the range of records and documents they might check is vast. They'll contact you or your accountant in advance to set out the evidence they want to see or information they are wanting to collect. This will likely include your annual HMRC tax returns, any PAYE records, tax you have paid, self-assessment returns, full company records or tax calculation evidence.



WHAT'S NEW? LETTING PROPERTY – HOT TOPIC FOR HMRC INVESTIGATION

HMRC is targeting compliance activity across all landlord types and will identify and write to landlords who they consider may not have declared all their rental income.

This will involve HMRC carrying out compliance checks or enquiries to resolve matters. The customers involved will not then be able to make use of the opportunity offered as part of this campaign.

HMRC will identify those who they believe should have made a disclosure by:

- Comparing the information already in their possession with customers' UK tax histories
- Continuing to use their powers to get more detailed information about payments made to and from landlords

Where additional taxes are due HMRC will usually charge higher penalties than those available under the Let Property Campaign. The penalties could be up to 100% of the unpaid liabilities, or up to 200% for offshore related income.

If you're disclosing offshore liability only, you can contact the Offshore Disclosure Facility Helpline for more information.

In extreme cases HMRC may consider the instigation of a criminal investigation, in line with their criminal investigation policy.

If you're a landlord and you have undisclosed income, you must tell HMRC about any unpaid tax now. You'll then have 90 days to work out and pay what you owe.

Relevant to all residential property landlords with undisclosed taxes. This includes:

- Those that have multiple properties
- Landlords with single rentals
- Specialist landlords with student or workforce rentals
- Holiday Lettings
- Renting out a room in your main home for more than the Rent a Room Scheme threshold
- Those who live abroad or intend to live abroad for more than 6 months and rent out a property in the UK, as you may still be liable to UK taxes

This campaign is not open to those landlords who are letting out non-residential properties such as a:

- Shop
- Garage
- Lock up

You also cannot use the Let Property Campaign if you want to disclose income on behalf of a company or a trust. Unlike previous campaigns, there is no disclosure 'window' requiring you to disclose what you owe by a specific date. This campaign will be ongoing for some time, landlords intending to come forward who delay, risk higher penalties if they are subject to an enquiry and they have not already notified an intention to disclose.

If any errors were due to misunderstanding the rules or deliberately avoiding paying the right amount it is better to come to inform HMRC of any inaccuracies rather than wait until HMRC uncovers those errors. The Let Property Campaign offers the best possible terms available to get your tax affairs in order. You can take advantage of these by notifying your intention to participate and co-operating with HMRC to make a full disclosure and payment.

If you registered for self-assessment and completed tax returns within the appropriate time limits, but have simply made a careless mistake when declaring your income, you only pay for a maximum of 6 years — no matter how many years you're behind with your tax affairs. However, if you do not come forward and HMRC finds later that you're behind with your tax, it may be harder to convince them that it was simply a mistake. The law allows HMRC to go back up to 20 years and in serious cases HMRC may carry out a criminal investigation.

Make sure you're certain about what you owe and get things right for the future.



HMRC INVESTIGATION - PERSONS OF SIGNIFICANT CONTROL

HMRC has issued a new round of one-to-many letters aimed at persons of significant control (PSCs) who have declared income of below £100,000 or who have not submitted a tax return.

Before the PSC regime was introduced, UK companies only needed to record the immediate, legal owners of their shares and submit these details to Companies House. Since 6 April 2016 under the PSC regime, companies have to look through however many layers of ownership there are, to identify relevant persons who ultimately have significant control of the company.

Broadly, a PSC is a person who:

- Directly or indirectly owns more than 25% of the shares in a company;
- Directly or indirectly holds more than 25% of the voting power of a company;
- Has the right to appoint or remove the majority of directors of a company; or
- Can exercise significant influence over the company.

As much of the information about PSCs is available on a public register at Companies House, it is also available to HMRC. HMRC's Wealthy team is sending two different nudge letters to some individuals listed on the PSC register.

The first letter is directed at individuals who appear on the PSC register and have submitted 2020/21 tax returns declaring income of less than £100,000. The second letter is targeted at PSCs who are not currently submitting self-assessment tax returns.

The letters invite taxpayers to consider whether there are any undeclared tax consequences of their interactions with the company of which they are a PSC. This includes benefits received from the company, receipt of a share option or a disposal of shares.

Where additional sources of income or gains are identified, HMRC asks taxpayers who have already filed to amend their 2020/21 tax return and to include anything relevant on their 2021/22 tax return.

INTRODUCING THE LEGAL BUSINESS HUB SERVICES – ROUND-THE-CLOCK LEGAL SUPPORT

- An employee had an accident at work – am I liable?
- What are the current maternity rules?
- How do I make someone redundant?
- My customer hasn't paid me, what can I do?

The right legal advice can help you smoothly navigate your business's everyday legal issues .

Your subscription to the tax investigations service gives you access to an online legal portal, Law Hub, which provides practical DIY templates and guidance around employment law topics, as well as having a dedicated tax section. And, on top of that, a team of qualified solicitors and barristers for employment law, health and safety matters and commercial issues are only a phone call away.

Most importantly, the advice is:

- Free with unlimited calls
- Open 24/7 365 days a year
- In plain English

Don't put your business at risk – the law changes constantly and the our comprehensive legal support ensures you have the right advice when you need it most.

BUSINESS LEGAL HELPLINE

24 hours a day, 365 days a year

T: 0333 920 3499

Please quote **MATAX**

LAW HUB SME online portal for legal and business guides along with DIY templates provided by Markel Law LLP. For access, please contact your Armstrong Watson contact.



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WHO'S MOST AT RISK OF A TAX INVESTIGATION?

Tax investigations can happen to anyone – whether you are an individual or in business – however good your records are. HMRC regularly undertake random enquiries to police the system.

TYPICAL INVESTIGATION INCLUDE:



LARGE BUSINESS – CROSS-TAX ENQUIRY

HMRC undertook a full review of the accounting records of the business and the tax affairs of the owners of a care sector group. All taxes were reviewed and required extensive input from the practice, with HMRC officers spending five days on site. 18 months later, the enquiry closed with a tax settlement and accountancy fees met by the tax investigations service and not the client.



HIGH-NET-WORTH INDIVIDUALS

HMRC sought to check the HNW individual's domicile status, requesting a great deal of information over a four-year period. The practice was at the client's side throughout and after several years, agreement was reached with HMRC. Despite having a tax bill, fees of over £75,000 were met by the tax investigations service.



PERSONAL TAX ENQUIRY

HMRC opened an enquiry into an individual's Capital Gains Tax position, rollover relief and income from property. At the outset, HMRC requested a substantial amount of information. A detailed reply was provided, but HMRC continued to challenge the claim for rollover relief. The inquiry was closed with no further tax due to HMRC, however the client would have incurred fees in the region of £13,000. Our service was in place and all fees were met with no cost to the client.

HOW OUR SERVICE CAN PROTECT YOU

No-one can prevent an investigation, but our HMRC tax investigations service will enable us to:



Explain any complex or technical tax challenges that are raised during the enquiry without any restrictions due to cost



Challenge HMRC's assertions and assumptions head on, establish that the basis of any enquiry is correct and make sure your case is handled fairly



Ensure the tax inspector is only requesting relevant information and documents, and provide all supporting evidence from our files relating to your return



Handle all communication direct with HMRC, including letters, phone calls or notices issued



Prepare for and attend any face-to-face meetings with HMRC



Ensure you receive the best defence to protect your tax position



Whether it's a cross-tax enquiry, a technical challenge or a detailed books and records review, our tax investigations service is designed to get you the best possible result and is why we strongly recommend that all our clients subscribe.

SERVICE COSTS

The Service fees* depend on your status or, if you are part of a business, the turnover of that business. Please note that all Partners and Directors are also covered by the Service* paid by their business if their individual income is lower than £50,000 from other sources of income outside the business.

TYPE OF COVER	ANNUAL TURNOVER	ANNUAL COST
Individuals and Trusts without trade	N/A	£115
Sole Trader	Up to £250,000	£220
Businesses (includes Partnerships, LLP, Limited Companies, Corporate Partners and Sole Trader with turnover over £250,000 p.a.)	Up to £250,000 Up to £1 Million Up to £5 Million Up to £10 Million Up to £25 Million	£350 £685 £820 £1045 £1760
Companies over £25m	Over £25 Million upto £30 Million £30 Million Plus	£2175 £3050

PRICES INCLUSIVE OF VAT

*Terms & Conditions apply refer to our website www.armstrongwatson.co.uk/TCS for more information.

Employment, health and safety, and business legal advice 24-hour helpline

When you subscribe to our HMRC investigations service, you'll have access to a team of qualified solicitors for employment law, health and safety matters and commercial issues. A legal expert is only a phone call away and, most importantly, the advice is:

- *Free unlimited calls*
- *In plain English*
- *Available 24/7, 365 days a year*



To learn more about our automotive business services drop us a line help@armstrongwatson.co.uk or call **0808 144 5575**

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