

## How Likely is a Tax Investigation

**One of the perpetual fears of many business owners is HMRC. Sometimes this is an irrational fear and sometimes it justified. HMRC have enormous powers that seemingly increase year on year.**

Tax, Payroll and VAT are getting increasingly complex and its up to you, as a business owner, to get it right. How on earth can anyone expect you to keep up to date with the changing complexity and get things right all the time!

Fortunately in our experience, HMRC are keen to help you get it right and as long as errors are genuine mistakes and not deliberate frauds designed to evade tax, then HMRC can be forgiving as long as you have taken steps to do the right thing.

### **What can trigger an investigation:**

1. HMRC apply algorithms to your accounts and tax returns and if these highlights anything out of the ordinary it can trigger an investigation
2. Random spot checks are not uncommon
3. Tip offs by third parties with a grudge
4. Unusual refunds can trigger an investigation
5. A change in the tax you pay – for example, some good tax planning this year

Most investigations start with you being sent a letter and most of these can be answered quite quickly. Its only if the answer you give, or evidence you supply, is not satisfactory that things can escalate.

Investigations can be made into a whole tax return or part of it and can be general or quite specific.

### **How can I minimise my chances of a tax investigation?**

1. File returns and pay tax on time
2. Keep proper books and records
3. Have a reputable accountant or tax agent
4. Do the right thing – declare your income and don't try and cheat the system
5. Tax planning is fine – tax evasion is not
6. Avoid complex tax planning schemes – they generally don't work and can cost you thousands.

### **Will tax planning cause me to be tax investigated?**

Tax planning is just organising your affairs to minimise tax – it is perfectly legal and where having a good accountant can come in. Any tax investigation into tax planning can be easily dealt with.

Organising your affairs in a way that is detrimental to you, in fear of what view HMRC may take, is madness. So no, tax planning itself will not trigger an investigation, unless it causes you to save much more tax than before and even then, no issues should arise if tax planning is within the law.

### **Do I need Insurance?**

Tax Protection Insurance is available should you consider the risk of an investigation to be high and want the peace of mind that, should you be investigated, you won't incur extra accountants' fees.

We cannot say if you will need it, like any insurance it could be used or it could not.

