

Be Ready for the Tax Investigation!

Background

Part of the reason for the introduction of self-assessment was to free up more inspectors to conduct investigation work and we have experienced a number of these investigations.

Tax investigations of individual taxpayers follow a fairly rigid format.

First, the inspector will request all the information supporting the figures in the tax return, but particularly, the accounts, accounts working papers, source documents, business and private bank accounts etc. They will then go through these documents looking for weaknesses that they can attack.

There may be some correspondence but usually the inspector moves straight on to the interview. This starts with a short explanation of the inspector's powers, and the inspector asks the taxpayer whether they have read the Revenue guide. The taxpayer is then asked if he would like to volunteer any information (i.e. previously underdeclared tax.) The main thrust of the interview gets under way as the inspector asks the taxpayer to explain his business, what he does, how he gets business, what records he keeps etc. What the tax inspector is after is finding evidence of under-recorded sales. He will have looked for missing invoices, diarised jobs which have not resulted in invoices, unexplained money banked into business, private, or spouses account, or just a much lower income than a quick calculation predicts. He will have looked for a discrepancy between sales and bankings. This is the key to the revenue technique; they call it breaking the records. Expect the questioning to be clever and seeking for you to admit that you have more income than you have declared.

The interview will move on to other aspects of your accounts, what stock do you carry, what money are you owed, what assets do you use. The second area the inspector is most likely to attack is the private elements of motor and telephone expenditure and or any other private expenditure which he feels may have been put through the accounts.

Lastly the inspector will want to know about your lifestyle, he will probably already have walked or driven past your house, but he will want to know about hobbies, vices (drinking and smoking!), holidays, and how these are all paid for. How old are your kitchen appliances? When was the conservatory built? How were all these things paid for?

As a parting gift the inspector will ask you to fill in and sign a statement of assets.

There may be further correspondence but at this stage the inspector is likely to indicate whether he is of a mind to close the case or whether he is looking for a settlement of previously underpaid tax.

Four Tips to Surviving the Investigation

Make sure that you have a diary or delivery notes or something similar that supports your sales records. Keep these.

Make sure that your invoice number sequence is intact. If you spoil an invoice or cancel it for any reason, keep it and write the explanation upon it.

If you have cash sales make sure that cash sales are recorded – and that they find their way into your accounts.

Make sure that you and your spouse keep documentary evidence of every private payment into your business or private accounts back for six years, or the inspector will assume that he has found under declared income.