

How to survive a HMRC investigation

No business owner likes the idea of facing an investigation by HMRC, but it's an unfortunate reality in many cases.

In fact, around 1 in 10 small businesses are under investigation at any given time, according to David Richardson, interim director-general of customer strategy and tax design at HMRC.

In a Treasury committee meeting on 17 April 2018, Richardson told MPs that small businesses make up 46% of the tax gap, which was estimated at £34 billion for the 2015/16 financial year.

However, he also emphasised that HMRC's focus is on preventing non-compliance in the first place, with an "enabling, helping agenda".

In the event that your business does come under investigation, knowing what to expect will make the process easier to handle.

What happens during the investigation process?

HMRC will contact you, usually by post or telephone, to inquire about your accounts.

You'll then need to provide information according to their requirements. What you need to provide will depend on the severity of the investigation.

This could come under 1 of 3 levels:

- random: HMRC has chosen your business at random for an investigation
- aspect: the investigation is concerned with a particular part of your accounts
- full: the inquiry involves a comprehensive review of your records.

Depending on what HMRC finds, they'll decide if you have underpaid tax, overpaid tax or, in the most serious cases, if they believe you have committed fraud.

Tips for handling an investigation

Don't panic

There are a number of reasons you could face an investigation, and it doesn't necessarily mean you've done something wrong.

While it's important to act quickly and within deadlines, it's best to take a calm approach, without rushing your communications with HMRC.

Get expert help

Facing a tax investigation alone can make the process even more stressful, so it's better to go into it with the help of an expert.

It's important to have someone on your side who understands the complexities of tax, and can take on some of the pressure.

You can ask us about any correspondence you receive from HMRC, and we're happy to liaise with them on your behalf.

Be honest and cooperative

Being as helpful and open as possible during the investigation will stand you in good stead later on.

Above all, make sure you answer questions truthfully, and be prepared to back up what you're saying with relevant records.

Own up to any mistakes

If you're aware you've made a mistake with your taxes, it's best to tell HMRC as soon as possible, rather than wait for them to discover it.

Attempting to cover mistakes up could result in a higher penalty or even criminal proceedings.

Avoid investigation

While there's nothing you can do about random investigations, there are a few ways to reduce the likelihood of attracting HMRC's attention to begin with.

The easiest way to do this is to maintain accurate records, so your tax returns can be filed correctly and any unusual activity can be explained.

Staying up to date with your tax bills and paying them on time can also help to keep you off HMRC's radar.

Speak to us if you are under HMRC investigation.