HMRC on the Prowl...

With the conclusion of the 2015/16 tax filing season it is appropriate to now look ahead to the new fast approaching tax year.

Amongst HMRC's new teams is what is dubbed the "Affluent Unit" which our profession sees as scrutinising the financial affairs of middle class families. We believe that the unit has taken on 68 new inspectors to review cases where there is an annual income of £150,000 plus those with a net worth of £1m. With the continuing surge in house prices this will affect many more tax payers than was first envisaged. From their own literature an expected 560,000 individuals will fall under this special review.

A report in the Times on the on the 21st January 2017 quoted a spokesman for HMRC commenting:

"Affluent individuals represent a greater tax risk than the rest of the population because they are more likely to have more complex tax affairs. It makes sense for HMRC to provide close scrutiny of them. Tax payers whose affairs are in order have nothing to worry about".

It will not surprise you to learn that there is also a "High Net Worth Unit" of HMRC targeting those with assets greater than £10m.

HMRC now uses a sophisticated database called 'Connect' to start more than 80% of tax enquiries. The system collects data from 30 different sources, including UK and offshore banks, Companies House, the Land Registry, estate agents, the DVLA and other licensing authorities, and social media. The data can be instantaneously reviewed by more than 3,000 HMRC investigators to produce a financial fingerprint for any taxpayer. If there are any discrepancies between tax returns or business accounts sent to HMRC a tax enquiry will follow.

Other specialised units we have worked with are those involved with bloodstock, farming and sports to include all aspects of professional football players and referees.

In addition to HMRC access to the information above one of the main tools used is to look at common characteristics of wealthy people such as:

- Habitual use of avoidance schemes
- Low effective rates of tax
- Foreign bank accounts
- UK and offshore property portfolios
- Fail to file their self-assessment returns on time

The last of these is by far the simplest means to potentially take yourself off the HMRC radar.

We believe that last year HMRC imposed 143,000 penalties on individuals who filed incorrect information and who were considered not to have taken reasonable care when signing their tax returns. You really do need to take all possible care not to be another statistic in 2017/18.

So what are the most common errors which tax payers can make? We set out below what we consider to be most prevalent:

- Not disclosing capital gains
- Not disclosing amounts of interest and dividends received
- Not disclosing rental income
- Not completing all the supplementary pages
- Not disclosing overseas income

As regards the non-declaration of rental income, HMRC believe there are nearly 250,000 tax payers who are not declaring their rental income with many cases going back over 5+ years. If you are one of those taxpayers then you should really come clean voluntarily rather than face penalties up to a maximum of 75% of the tax liability that could arise should HMRC make the discovery. We would be able to assist you in notifying HMRC of the disclosure. With cooperation we have seen penalties decrease from 75% to 25% for those who made a voluntary disclosure.

Anyway for those still standing we have to make you aware that when you sign your tax return and state that

> **I declare** that the information I have given on this tax return and any supplementary pages is correct and complete to the best of my knowledge and belief.
>
> **I understand** that I may have to pay financial penalties and face prosecution if I give false information.

you really comprehend the seriousness of the situation and so are absolutely certain that you have made a full and honest disclosure of all that needs to be declared. The warning signs are really flashing bright so we would really be pleased to advise you on any aspect of your taxation affairs where you have concerns that you might be in default with HMRC.

We would like to close on a lighter note to let you know that HMRC does have a softer side. An article in the 29th January issue of The Sunday Times money section reported that over the last 3 tax years, HMRC have spent at least £8,500 on sending bouquets to taxpayers as an apology for its mistakes. They quoted an HMRC source, “When we make a mistake, we always apologise and put things right - including reimbursing customers with additional expenses they may have incurred - and we sometimes send flowers as a practical way of saying sorry.”

How about that?