

HMRC - what do they know!

Why would HMRC look at your clients?

HMRC – what do they know!

The information available to HMRC has never been as comprehensive or as accessible. Our lives now laid out on social media for all to see means HMRC view of our lifestyle spending habits cannot be hidden.

HMRC have a team of analysts whose job is to compare information in the public domain with your client's tax returns. Many of us post photos of our holidays, new cars, kitchens, extensions, expensive hobbies, lavish weddings and even pets. Nothing wrong with that in isolation but if your tax return doesn't support that type of lifestyle your client could end up with an HMRC enquiry.

Badges of wealth and indicators of affluent living identified from social media will help HMRC risk assess individuals and will be used in conjunction with the other types of data. HMRC officers will also routinely carry out internet searches for information on individuals selected for a compliance check. Newspaper articles identified on the internet may also signpost HMRC to an individual's activities for example, with a reference such as 'Joe Blogs of London Road, a local property developer, witnessed the incident.....'

What other reasons could HMRC decide to enquire into your affairs? Not all compliance checks will be targeted as some are selected randomly. However, many begin with third party information about an individual.

Third party information is vital to HMRC's strategy in tackling evasion and an obvious source is an informant. Usually a disgruntled associate, ex-employee or ex-partner. However, there are many other third party sources. It has become widely known that HMRC have access to various third party information sources which are held within a system called Connect onto which bulk data is uploaded from a number of authorities and other organisations. Connect holds vast quantities of HMRC internal information which is combined with data gathered from external sources. It enables HMRC to quickly find associations between individual pieces of data and link them to a person's tax record.

Bank and building society interest informs HMRC if there is a level of capital wealth which is inconsistent with what has been declared by a person. Newly acquired data about overseas income will also be accessed and evaluated from Connect. Merchant Acquirer information from debit and credit card sales provides HMRC with data about all businesses who accept card payment and Just Eat (and other fast food intermediary services) data is analysed to compare against declared sales figures in the takeaway industry. Even Petplan, the pet insurance provider is asked to provide bulk data for a campaign about the sale of puppies which HMRC use to gauge if puppy breeders have been truthful on their tax returns. Local authority licencing data such as private hire taxi plate information helps HMRC identify particular trades. Money service bureaus and cheque cashing operators have also been used by HMRC to identify individuals whom have used the services regularly with funds that exceed known sources.

Connect also contains information about property transactions, people who receive Housing Benefit and people who are registered on the landlord deposit scheme. Information about planning permissions is also accessible in the public domain further aiding HMRC to establish if an individual has spent a significant amount on building improvements. This helps HMRC identify landlords, property developers and people who have received a capital gain.

All of this information available to HMRC helps them to make targeted compliance checks where they suspect Self-Assessment declarations may not be accurate or where no declarations have been made at all. Where they find that income or gains have been understated they will charge penalties for failing to file accurate returns or failing to notify chargeable sources of income. Where they think that there are deliberate under declarations, the penalties could be up to 100% (or 200% for offshore income). People who approach HMRC voluntarily to make a disclosure, may be given a reduced penalty.

As you can see HMRC have access to such a wide variety of information, which means most enquiries will need explanation and representation, the days of writing a letter because of a simple misunderstanding are diminishing. Going forward it seems clear that HMRC Enquiries and disputes will be more protracted and will require specialist help. Clients will look to you for this specialist help but often won't have the finances to pay your fees. HMRC have big pockets, don't let your clients' finances dictate the level of support they receive.

For further information about how to protect yourself against unexpected fees simply fill out our short form below and a member of our team will be in touch.

<https://www.cronertaxwise.com/tax-investigation-insurance/request-quote/>

If you would like help in dealing with HMRC during a compliance check, or if there is a disclosure to make, please contact the Croner Taxwise consultancy team on 0844 728 0120.

If you have a case like this, are having difficulties with HMRC and would like to speak to one of the consultancy team please email consultancy@cronertaxwise.com or call the team on 0844 728 0120



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