

Stay protected from HMRC Investigations

How our Tax Investigation Protection Service can help

When contractors are considering the value of the PayStream Tax Investigation Protection Service (TIPS) they often ask us "Are HMRC interested in the accuracy of my personal Tax Returns?" along with "what are the chances of me being selected for a compliance check?" and "what sort of things are being investigated?". These questions got us thinking that it might be helpful for you to see a few figures based on our own experiences here at PayStream.

Obviously, like most accountants, we keep a close eye on the activities of HMRC and we have seen an increasing effort being put into trying to ensure that the high profile multi-national companies pay their share of tax.

Sometimes, however, HMRC find it easier to add to the Chancellor's coffers by going for easier targets. They have focused on using technology to identify large numbers of small errors or inconsistencies in individuals' personal Tax Returns. For them it is often easier to squeeze a £1m additional tax from 1000 small businesses than it is to make a single large business pay £1m in tax – nothing like the same resources or time commitment are required by them.

You can see below an analysis of 500 Tax Compliance Checks and Investigations with which we have been involved over the past 3 tax years. The table shows you the areas scrutinized by HMRC. You should bear in mind that HMRC have 12 months from the filing of the Tax Return so the figures you see relate to the most recent years in which this 'enquiry window' has fully closed:

	2015/16	2014/15	2013/14
1. Employment income	31%	39%	29%
2. Legacy Contractor Loan Schemes	20%	24%	25%
3. High Income Child Benefit Charge	17%	23%	24%
4. Taxable benefits	15%	4%	4%
5. Student Loan Repayments	10%	3%	6%
6. Pension contributions and receipts	3%	3%	1%
7. Bank and other investment income	2%	0%	1%
8. Tax adjustments for earlier years overlooked	0%	2%	4%
9. Let property income	0%	0%	2%
10. Other (miscellaneous)	2%	2%	4%

The reasons why contractors find themselves in HMRC's spotlight in the areas shown above can be varied but here are a few examples:

- Earnings from a temporary, short term or part-time job not disclosed on the Tax Return
- Tax liabilities on Contractor Loan Schemes set up well before joining PayStream
- Misunderstanding the High Income Child Benefit Charge; believing that the mother receiving the benefit has income of less than £50k when the charge is on the person with the highest income in the household
- Forgetting to enter private medical insurance for an old employment
- Overstating Student Loan Repayments made whilst in employment prior to becoming a contractor or overlooking the obligation to start repaying a Student Loan
- Not disclosing small occupational pensions; erroneously claiming company pension contributions as being made personally
- Overlooking untaxed interest on windfall payments like PPI
- Believing that income from let property does not have to be disclosed if no profit is made in one year

In addition to having to pay the tax due, a 'careless inaccuracy' on a Tax Return can lead not only to an interest charge on the unpaid tax but also a penalty of as much as 100% of the tax due.

Many contractors who have been subject to an HMRC investigation have found that HMRC summarily assume that the error has been made carelessly and that they can be strict over the imposition of penalties. Taken together with the time and worry involved in being investigated by HMRC, taxpayers find the support of a professional team of tax experts to be invaluable in helping to bring the enquiry to a swift and reasonable conclusion.

One of the reasons PayStream introduced the Tax Investigation Protection Service was not only to help contractor clients through what can be a difficult time, but also to limit the additional professional costs to zero! Having to pay professional fees of up to £60 per hour for the right support can add significantly to the overall cost of the settlement if the HMRC enquiry branches off into other areas such as IR35 status or the contractor's company tax affairs.

We sincerely believe that the TIPS option provides the peace of mind of knowing that any accidental error in a Tax Return won't end up costing a contractor a fortune in defending their case.

For more information about the service please email tax@paystream.co.uk or call 0161 929 6000 (option 3) to speak to a member of the Tax Team.