

Big Brother Is Watching You

From 1 April 2009, HM Revenue & Customs have new powers to inspect a client's "statutory records", check a client's "tax position" and enquire into a client's affairs.

The taxes affected are: income tax, capital gains tax, corporation tax, value added tax and PAYE including the contractors deduction scheme.

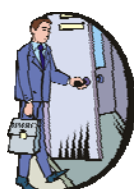
Compliance Visits

HM Revenue & Customs now have a statutory power to allow them to visit a "business premises" to inspect records, even when the business premises form part of a private dwelling. (Although they cannot normally enter a purely private dwelling without the owner's consent.)

Unless there is a valid reason, a notice advising of a visit by HM Revenue & Customs will be issued giving seven days notice of their intended inspection visit.



If you receive one of these notices you should let us know **IMMEDIATELY**. We **strongly believe** that we should be present at this visit to explain any information to HM Revenue & Customs and minimise any misunderstandings.



Also, it is a separate offence to obstruct an inspection visit. If there is a problem with a proposed visit then you **MUST** talk to us so that he can negotiate with HM Revenue & Customs to arrange another date, if possible.

Penalty Rules

These powers are backed up by a new and far tougher penalty regime designed to ensure taxpayers comply properly on a voluntary basis at the risk of serious penalties should they decide to try and cheat the taxman.

These new penalty rules have been unified across the various taxes. For example, an error by a VAT registered company in the amount of its turnover which leads to an understatement of profit will cause assessments of both corporation tax and the VAT on the additional turnover along with penalties. HM Revenue & Customs will also try to back date the settlement to the last six years.

As actions by taxpayers, or the lack of them, can determine the level of a penalty, then it is important that a note of the reasoning behind an action should be kept. If you have any doubt as to how a transaction should be dealt with then you should ask your accountant.

Behaviour Giving Rise to Error	Penalty Gearing: % of Potential Lost Revenue	
	Voluntary Disclosure	Prompted Disclosure
Mistake or misinterpretation	0	0
Failure to take reasonable care ("careless inaccuracy")	0 - 30	15 - 30
Deliberate understatement or over-claim	20 - 70	35 - 70
Deliberate understatement aggravated by concealment	30 - 100	50 - 100

For example, making a "prompted disclosure", i.e. after the start of an investigation, of a failure to properly record the takings of a business which may classify only as a "failure to take reasonable care" could lead to a penalty of between 15% and 30% of the tax under declared, dependent of the level of seriousness. If such a disclosure was made as a result of what HM Revenue and Customs felt was a deliberate plan to conceal income, then the penalty would be between 50% and 100% of the tax understated.

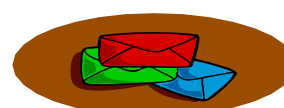
Please bear in mind that the above are only the Civil (Monetary) Penalties in respect of tax evasion.

The Money Laundering Regulations 2007 make tax evasion a criminal offence punishable by up to a prison sentence of up to 14 years!



Checking Your Tax Position

HM Revenue & Customs must notify you once they start to "check your tax position". A notice should be issued to you. In theory, a copy should also be sent to your accountant. Sometimes this doesn't happen so you should make sure that you tell us about any notices or letters you get from the taxman.



The Records You Need to Keep

For the first time, HM Revenue & Customs have set rules for what records **MUST** be kept by taxpayers. These rules are dependent upon whether a taxpayer is in business or not. The following are the minimum requirements. If you have any questions please do ask us.

Clients Not in Business

- employees, including Directors, must keep records of employment income e.g. P45s, P60s and P11Ds, the return of benefits and expenses. Clients who receive state benefits must keep a record of these. Pensioners must keep the forms P60 issued.
- clients with savings or investment income should keep:
 - bank/ building society statements or passbooks with statements of interest, etc received from savings and investments. Also, bank supplied tax deduction certificates.
 - dividend vouchers received from UK & foreign companies
 - other vouchers e.g. scrip dividend vouchers
 - unit trust tax vouchers
 - life insurance chargeable event certificates
 - details of any income you receive from a trust
- clients should also keep details of exceptional amounts received e.g. inheritances or other windfalls, and other documentation relating to savings/ investments
- clients with capital gains should keep details of:
 - the original cost of your asset
 - anything you paid to acquire the asset e.g. fees for professional advice, Stamp Duty, etc
 - expenses improving the value of your asset
 - expenses proving/defending ownership of it
 - the amount you received when you sold or disposed of the asset
 - any costs you paid in order to sell the asset
- Some examples of the documents you may need to keep include contracts, bills, invoices or copies of valuations

Clients in Business

(Including Let Property Businesses)

- records of all receipts and expenses in the course of the trade, profession or business, or company activities. e.g. purchase and sales invoices, till rolls with supporting reads, purchase receipts, petty cash records, etc
- records of the matters in respect of which those receipts and expenditure take place, and
- records of all sales and purchases made in the course of any trade involving dealing in goods, and
- supporting documents relating to the items in 1, 2 and 3 including accounts, books, deeds, contracts, vouchers and receipts. Supporting documents may also include valuations, evidence of estimates such as private use adjustments and own goods, work-in-progress and bad debts.

VAT Registered Businesses

VAT registered taxpayers also need to ensure they keep the records required under the VAT regulations and set out in booklet VAT 700, the VAT Guide.

Effect of the New Regime

Safeguards are built into the new rules but there is an obvious requirement for increased and improved record keeping. Larger businesses, may need to consider recruiting a bookkeeper. Smaller businesses must take care and talk to their accountant about problems. The alternatives are likely to be exceptionally painful and expensive!

Limited Company Records

Companies Act 2006 requires companies to keep certain accounting records.

Every company must keep adequate accounting records. These are records that are sufficient:

- to show and explain the company's transactions, and
- to enable the directors to ensure that any accounts that must be prepared comply with the requirements of the Companies Act 2006.

In particular, accounting records must:

- contain entries from day to day of all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place, and
- a record of the assets and liabilities of the company.

If the company's business involves dealing in goods, the accounting records must contain:

- statements of stock held by the company at the end of each financial year of the company,
- all statements of stocktakes from which any statement of stock has been or is to be prepared, and
- except in the case of goods sold by way of ordinary retail trade, statements of all goods sold and purchased, showing the goods and the buyers and sellers in sufficient detail to enable all these to be identified.

Directors of Group Companies can be held responsible for the actions or failures of directors of other Group members