

HMRC self assessment (SA) investigations - how they work

Introduction

A HMRC Self Assessment investigation can be stressful and potentially costly in both time and penalties.

This article discusses the SA process.

When do SA Enquiries occur?

Unlike the PAYE inspections (which happen on average every 5-6 years), there is no time limit for each SA taxpayer to receive a SA Enquiry and most people never have to deal with a SA Enquiry.

Why would you be chosen?

The Revenue will contact you for a SA Enquiry because:

- o they believe they have found errors in your records; or
- o your records differ from other taxpayers in the same type of work.

How would you be chosen?

Inspectors select their own cases and are expected to get good results.

Inspectors can use a Revenue database holding information about contractors. They look for contractors who expenses are different to the typical amount for other contractors in the same area. For example, most contractors might be claiming £2,000 p.a. whereas some others are claiming £3,000 p.a. This might be genuine or it might be because the expenses are personal ones.

After some candidates have been selected the SA records are examined for further clues. Following that the file of each contractor is reviewed in detail. Contractors are then selected which have the best chance of getting a 'result'.

A letter is sent to the Contractor requesting all business records for a 12 month period.

The review

The Inspector reviews the records and then requests an interview which normally takes between 2 – 4 hours and can be very stressful.

The Inspector will ask lots of questions about your business to highlight any issues he may have missed and to confirm his understanding of the records.

If errors are found

If errors are found, the Inspector will calculate the "uplift" that should be added to the accounts.

They will also consider other years, interest and penalties. This could be a very expensive for you.

IR35

The Inspector will establish how many clients you have from the invoices. If they are mainly from 1 – 2 different clients then this could lead to an IR35 investigation.

It is also likely he will discuss his findings with the Revenue auditors to consider undertaking a review of the main Client to seek other "disguised employees".

Avoiding an enquiry

The best course of action is not to be selected for a SA Enquiry.

We discuss this in another article.

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