

Minimising the risk of a HMRC inspection

Introduction

HMRC inspections can become quite costly, time consuming, and very stressful. This article discusses the issues that raise alarm bells with HMRC, and advises how to minimise the risk of an investigation.

See our other article for an [explanation of HMRC tax inspections](#).

Times have changed

HMRC is very aware of "one man" consultancy companies, particularly those used for computer contractors.

HMRC used to take little interest in one man service companies. Their activities were confined to "routine" PAYE inspections where they checked PAYE calculations and asked a few questions about private use of telephones.

Things have significantly changed – and not for the better.

However, actions by you can mitigate the chances of an investigation and ensure you are prepared:

“ HMRC is very aware of one man consultancy companies ”

David Colom

IR35

Factors leading to an IR35/payroll inspection are:

- o Ticking the box on your Employer's Annual Return (form P35) that some or all of your income may fall within IR35
- o Paying a small salary/large dividend.
- o Having a company name which is obviously that of a computer contracting company. Existence as an IT consultancy inevitably leads to questions about IR35 status.

If you claim you are outside IR35 you will be asked to justify your reasons. You should ensure that you have a very good justification and strong argument for your decision.

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Section 660

Factors leading to a Section 660 enquiry are:

- o Having a shareholding structure including a spouse or close relative who doesn't actually carry out any work for the company (apart from minimal secretarial duties).

HMRC see Section 660 as a very lucrative source of additional tax. If you are operating under such a structure you should consult your accountant to discuss the position and options for avoiding a serious problem.

“ HMRC see Section 660 as a very lucrative source of additional tax ”

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Changes in share structure

Factors that could trigger an investigation are:

- o Major changes in a company's shareholding structures, including dividend waivers.
- o Any shareholders that are non productive/working.
- o Any shareholders that are non resident in the UK.

An Inspector of Taxes may well ask for a commercial justification of the arrangements above.

Non allowable expenses

The Inspector of Taxes is aware that many contractors may not be aware that certain expenses are disallowable. Examples include business entertaining, business clothing and private use of company assets.

See [Valid Expenses as a Contractor - What You Can Claim](#), and [Contractor Doctor - Can Expenses be Claimed For Entertainment?](#)

Travel expenses

High claims for travel are likely to result in a request for justification/documentary evidence.

Claims without receipts for travel/subsistence should be avoided wherever possible, since this is a particularly sensitive issue for HMRC at the present time.

Use of home as office

Any claims for expenses for "use of home as office" should be fully justifiable.

HMRC are aware that contractors have previously made claims without any real justification.

For more on this topic see [Claiming Contractor Expenses for Use of Home As Office](#).

Company car expenses

Company cars in a one man contractor company are becoming a rarity as discussed in our article on [contractors and company cars](#).

If you do have one, you should fully account for the benefit in kind tax arising and also the Class 1A National Insurance.

HMRC cross check the accounts of companies with cars to Class 1A/P11D forms and any under declaration or non compliance is likely to be picked up and investigated.

P11D compliance

If expenses are claimed in your company and reimbursed to you, you should ensure that a form P11D is completed, making full disclosure of any benefits in kind and expenses reimbursed.

HMRC do cross check expenses claimed in one man companies to the director's form P11D, particularly if expense claims are high.

Published: Monday, July 17, 2006

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- [HMRC Self Assessment \(SA\) Investigations – How They Work](#)
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- [PAYE/NI Net Salary Tax Calculator](#)
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