

10 actions you can take to help you avoid a tax investigation

Contractors constantly face the risk of having their tax affairs investigated by HMRC. With the taxman's increasingly sophisticated resources, and the ongoing spectre of [IR35](#) looming, HMRC is always looking for an excuse to open an inquiry.

Although you can never truly eliminate your chances of being targeted for a tax investigation, there are several precautions that you can take to help you stay low on the taxman's radar.

1. Hire an accountant

The easiest way to attract HMRC's attention is by submitting tax paperwork either late or with errors. Any mistakes are likely to raise a tax inspector's suspicions that you're making further miscalculations.

Having an accountant take care of your paperwork eliminates this risk and significantly reduces your chances of being investigated.

2. Review your tax returns

Hiring an accountant is vitally important, but it doesn't give you automatic immunity from tax investigations.

Ultimately, you are held responsible for the forms that your accountant files on your behalf, so you should make sure that you review them before your accountant submits them.

3. Explain anything out of the ordinary in your tax return

HMRC uses sophisticated software to help identify targets for investigation, and significant fluctuations in terms of profits and/or expenses are likely to trigger datamining software and so arouse suspicions.

Providing a note explaining any anomalies alongside a tax return will likely close down an investigation before it's started.

4. File accurate RTI submissions

Making sure you – or your payroll provider - file accurate and prompt real time information (RTI) submissions is an effective way to reduce your risk of an investigation.

Similarly - though not obligatory - honestly answering the [personal service company](#) question on your tax return proves to the taxman that you have nothing to hide.

5. Keep business costs and expenses sensible

HMRC has devised profiles of the average financial performance ratios of different types of businesses based on data collated from tax returns.

If your profits, business costs or expenses deviate significantly from the norm for your sector, you may be asked to explain why.

6. Steer clear of HMRC's IR35 review service

Although officially denied, experts suggest that HMRC's [IR35 contract review](#) service acts as a source of leads and information for other compliance teams.

If an HMRC officer considers your contract to place you at high risk of falling within IR35, the chances are they will forward your details to IR35 specialists.

7. Avoid the 'phoenix jobs' tag

Contractors who frequently start up limited companies before closing them and starting another are often regarded as running a series of 'phoenix jobs'.

If you fall within this category, HMRC's extensive database of directors and their tax records means it can easily join the dots to identify you, making a tax investigation more likely.

8. Beware of tip-offs

Some contractors find their tax affairs under review as a result of a tip-off from former spouses, partners or business associates.

Be very careful when talking about your tax affairs and be sure not to give too much information away to anybody who you're not certain is entirely trustworthy.

9. Monitor HMRC's compliance campaigns

Although nobody knows exactly what HMRC's risk criteria for targeting candidates for tax investigations constitutes, there will be certain behaviours that increase a contractor's chances of being targeted.

You can help minimise your risk by monitoring HMRC's compliance campaigns in order to figure out what behaviours are least likely to attract the taxman's attention.

10. Apply IR35 best practice

This is an essential step for any limited company contractor, consultant or interim. A contract dossier – featuring a contract review, a [confirmation of arrangements](#) and details of correspondence between yourself and the client that highlights the exact nature of your day-to-day working relationships – will provide you with the ammunition you need to fend off the taxman.

If you find HMRC is looking into your tax affairs, presenting this contract dossier can shut down an investigation quickly.

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