

HM Revenue & Customs (HMRC) regularly carry out business records and compliance checks, sometimes over the telephone and otherwise in writing. The checks are conducted to try to ensure that taxpayers are keeping good records, paying the right amount of tax at the right time and claiming the right allowances and reliefs.

What happens during a business records check by telephone?

If HMRC telephone you to conduct a business records check, they will ask a few questions about your business and the records you keep. The call will not usually last any longer than fifteen minutes. If the officer is satisfied that you are able to file accurate returns based on the information you give, they will advise you accordingly and confirm to you in writing that they will not be taking any further action.

If they feel that you just need a little bit of support and guidance, they will tell you and pass your details on to their Business Education and Support Team. If they decide that you are not keeping adequate business records, they will advise you and then arrange for an officer to visit you at a convenient date and time.

What happens during a business records check visit?

If a visit is arranged as a result of the initial call, the visit is likely to last around two hours. The officer will need you to explain what your business is, how you run your business and how you keep your records. They will usually want to check a sample of your records for the last three to four months, to help them to ascertain whether or not they are adequate. If the officer is satisfied, they will notify you at the meeting, confirm it in writing and this will conclude their checks.

If the officer finds that your record keeping needs to be improved, they will discuss this with you, advise you what you need to do to make your records adequate and let you know what will happen next.

HMRC can impose a penalty for poor record keeping, but before doing so they will give you the opportunity to put matters right. The officer will tell you what improvements need to be made and offer to help and support you. A follow up visit will be arranged to check that the recommended improvements have been made. If your records are found to be complete and accurate at the follow up visit, the penalty will be reduced to nil.

If HMRC carry out a follow up visit and find that your records have still not improved to an adequate standard, a penalty will apply. The penalty is usually £500 for the first offence, reduced to £250 for businesses in their first year of trading, with the maximum penalty being £3,000.

Where HMRC do find that your records are inadequate, they will refer you for another business records check visit in two years' time.

What happens during a compliance check?

Compliance checks can be conducted on individuals or businesses. If you are selected for a compliance check, an officer from HMRC will notify you that they are carrying out a compliance check and advise you what they will be checking. They will ask you to provide any information or documents they may need and in some cases they will also ask to visit your business premises.

If you know or suspect that there is something wrong, you must tell the officer as soon as they advise you that they have started a check. It is important to work with the officer in a timely manner, as this will help to conclude matters swiftly and also reduce penalties should there be any mistakes or underpayment of tax. If you need time to gather information, or need to postpone a compliance visit, again you must notify the officer as soon as possible and providing that your reasons are acceptable, they will give you more time/rearrange a date for the visit.

At the end of a compliance check, HMRC will either send you one or more 'decision notices', or conclude the checks by agreeing a contract settlement with you. A decision notice can be any one of the following:

- an assessment or amendment to an assessment;
- a penalty notice if a penalty is due; or
- a letter setting out what the final position is.

A contract settlement is a legally binding agreement, where you offer to pay everything that is due as a result of the check and HMRC agree not to use their formal powers to recover that amount. You can only pay through a contract settlement if both you and HMRC agree.

NB It is not possible to enter into a contract settlement for any VAT or VAT penalties that are due.

What if HMRC find something wrong?

If HMRC do find something is wrong they will explain why, work with you to put it right and tell you how to prevent it happening again.

If you have underpaid tax in addition to settling the amount underpaid, you may also have to pay interest and penalties. If you have overpaid tax this can either be repaid to you or credited to your account – in some cases HMRC may also pay you interest.

If HMRC rule find that you have deliberately got your tax affairs wrong, they may decide to monitor you more carefully in the future and they have a special department that deals with such cases. In addition, in some circumstances HMRC can publish the details of deliberate defaulters.

Need help?

Waveney Tax Solutions can advise you how to keep your records and help with all your bookkeeping requirements. We can also assist with any HMRC business records or compliance checks. For further details, please call us on 01502 370620 or 07919 924273, or alternatively you can email us at nina@waveneytaxsolutions.co.uk.