

Briefing document

Cross-tax enquiries

Introduction

HMRC's strategy for dealing with corporates in the tier below those with HMRC Customer Compliance Managers has resulted in the number of enquiries into corporates rising rapidly. In this note we comment on cross-tax enquiries, collaborative risk reviews, penalties and what to do if you receive a cross-tax enquiry notice.

Cross-tax enquiries

HMRC have shifted their strategy in targeting corporations and has established and expanded their wealthy and mid-sized business compliance directorate. This is responsible for monitoring businesses with turnover between £10million and £200million. Teams within the directorate have been opening cross-tax enquiries, which enquire simultaneously into a business's corporation tax, VAT and employment tax affairs.

A cross-tax enquiry will usually be undertaken by 4-5 inspectors and will start with a full-scale review of the business's paper and electronic records and the business's growth and strategy. HMRC have been targeting fast growing and the strongest performing businesses rather than specific sized businesses.

HMRC's cross-tax enquiries usually follow quite a formulaic approach, which can be time-consuming, putting pressure on a client's own resources. HMRC will request all electronic and paper records ahead of an opening meeting, which can last for several hours. This will be followed by a site-visit for the different taxes, and finally, some time after the enquiry opened, a discussion of what risks HMRC is concerned about.

In all cases, the opening letter also automatically includes informal requests for personal bank statements and other records relating to the directors and other key business personnel. This is another example of how cross-tax enquiries are different from what large business had previously experienced with HMRC.

Collaborative risk reviews

In addition to cross-tax enquiries, HMRC have also been initiating collaborative risk reviews. These generally begin with a letter suggesting a meeting between HMRC and the business, which may seem simple and imply that the meeting will be informal.

However, in practice, these meetings may not be informal. In some cases, meetings have been attended by a number of inspectors who have asked detailed questions at the meeting, without giving notice of the questions to be asked in advance of the meeting, meaning that the business concerned has not had time to prepare. We strongly recommend that Deloitte attends any such meetings.

In some cases HMRC will issue a formal enquiry notice(s) if the collaborative risk review is still open close to the end of an enquiry window for the relevant accounting period.

Penalties

Finally, whatever the form of interaction with HMRC, we are seeing more penalty discussions take place. Once more, this reflects HMRC's change in strategy with regards to the corporate arena, where it was accepted for many years that further tax due at the end of the enquiry was generally non-culpable, being the result of differing technical interpretations of complex facts.

However, we understand that HMRC practice is now for enquiries to remain open if penalties have not been discussed and recorded. This change of approach leads to a longer period of correspondence with HMRC, and frequently to more aggressive negotiating stances being taken by HMRC. For example, where a return is

amended within the statutory deadline for doing so, HMRC could seek to raise additional penalties on the basis that the initial filing of information was done 'carelessly'. Across the board, we are also aware of HMRC requesting more details around the behaviour that initially led to inaccuracies.

What to do next

If HMRC contact you with regards to any of the above, please contact your usual Deloitte contact or one of the team members listed below to discuss what this might mean and the appropriate way to respond.

Find out more...

This note reflects the law in force as at 12 May 2020. Please be aware that it does not cover all aspects of this subject. To learn more about maintaining compliance in a transparent world, you can also visit our website www.deloitte.co.uk/tax-transparency or contact any of the team:

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