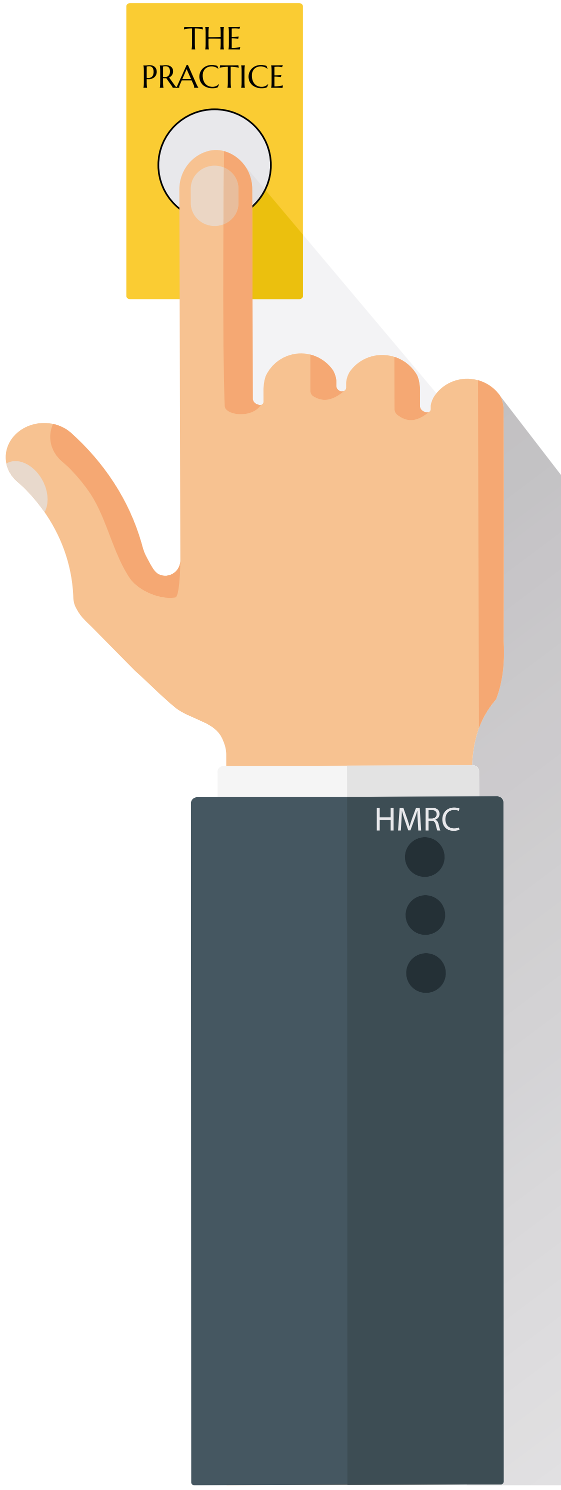
START A PRIVATE PRACTICE

Stop the taxman visiting



For many consultants, there is a clear angst that HM Revenue and Customs may come calling with an unexpected tax bill or inquiry. **Ian Tongue** (right) explores some common areas of risk and the steps that can be taken to minimise the risk of the taxman ringing your doorbell

PHEW! THANKFULLY, it is actually quite rare to have a representative from HM Revenue and Customs (HMRC) literally turn up at your door.

That approach is mainly for on-the-spot record-keeping checks or if it thinks you have done something really bad.

The norm is to receive the brown envelope with HMRC saying that it is inquiring into your affairs. The natural reaction is to hit the panic button. But don't.

Contact your accountant and discuss the reasons for the inquiry. There are two main types of inquiry that you would potentially have: an 'aspect' inquiry or a 'full' inquiry.

The aspect inquiry is just that: one or a small number of aspects are being queried; for example, salary or bank interest disclosure.

HMRC has long been the recipient of certain information that allows them to compare information on your tax return to theirs.

Increased chances of inquiry

With the push to digital disclosure of information, HMRC has never had so much information to use, which inevitably will increase the chance of an inquiry if you fail to disclose something or record a figure inaccurately.

A full inquiry usually asks for all of your records and after a review or reconstruction of certain figures, they will ask questions.

This type of inquiry is less common for consultants engaging in private work.

Where HMRC discovers that additional tax is due, it allows it to open earlier year tax returns on the basis that they could be inaccurate as well.

In addition to any underpaid tax, interest and penalties are charged on a percentage scale based on various factors but usually carrying a minimum of 20-30% of the tax underpaid.

Therefore, it is really important to ensure that your financial circumstances are managed to reduce your risk of financial loss.

Record-keeping

Keeping adequate records is a requirement of running any business and HMRC actually has powers to fine a business for not keeping adequate records.

It doesn't actually define what is adequate, but it can generically be seen as a system that records and is able to report information which is complete and accurate.

The use of software can significantly help here, as it should ensure that more focus is placed on the accounting system, making it more robust.

When submitting your records each year, ask your accountant if there are any areas of deficiency in your systems or recommendations. This reduces your risk of inaccuracies and can help reduce costs.

Choice of accountant

Unlike the medical profession, calling yourself an accountant can take many forms.

Costs are obviously an important consideration and it is easy to simplify the role of an accountant. If you go with the cheapest option, you are likely to receive a scaled-back service and ultimately it is you, not them, that are responsible for your tax submissions.

It is always sensible to go with an accountant who is regulated, and one who has medical experience is essential, in my opinion, as a general accountant is unlikely to understand the nuances of the medical profession.

Full disclosure

With the influx of doctors from other countries, it is really important that you provide full disclosure to your accountant when preparing your tax returns.

A number of years ago, there were significant changes for those who are tax resident in the UK but are not domiciled in the UK.

It used to be the case that many countries did not share information with HMRC, but nowadays there are few countries that don't supply HMRC with information. There have been various amnesties to own up to assets/income from abroad, so anyone not disclosing their worldwide income and capital gains are likely to be hit hard.

It goes without saying that you should disclose everything to your accountant and they will be able decide what should be included on your tax return based on your individual circumstances.

Aggressive tax planning

Tax planning can take different forms and many structures are low risk and have tax cases that support their use; for example, a husband-and-wife-owned limited company. However, there are many structures and products that are higher risk and, in some cases, asking for trouble.

HMRC has been extremely successful with its drive to challenge the abuse of products such as film partnerships and offshore planning.

In recent years, HMRC has been given more powers to target aggressive arrangements and to also target those promoting such schemes. This new power is called GAAR, which stands for general anti-abuse rule.

For those who are in such arrangements, get a second opinion, as the promoter almost always will say the scheme is compliant with all regulations – but they would, wouldn't they.

Often the businesses promoting the most aggressive schemes are limited companies and it is easy for them to walk away from advice given with little or no recourse on them.

As with many things in life, if something looks too good to be true, then it probably is. A lot of higher-risk tax planning falls into this category.

Annual allowance

This is an area where more inquiries are likely over the coming years due to an unworkable system. The

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Government made changes to the amount you can save into a pension, which reduces the headline figure of £40,000 per year to just £10,000 for those earning more than £210,000.

NHS Pensions is only under an obligation to issue a pension growth statement when you have exceeded the limit if your growth is over £40k.

Therefore, someone who has a limit less than £40,000 and, importantly, a tax charge won't receive a statement to calculate the figures. It is a fundamentally flawed and unfair system that will require close contact with your accountant to manage your obligations.

The future: Making Tax Digital (MTD)

There is an argument to say that MTD, as it is known by HMRC, should be rebadged as 'making tax difficult'. It requires taxpayers to report to HMRC quarterly, which is a significant burden to small businesses and the cynic in me believes this is part of a wider agenda to provide taxpayers with less scope for tax planning and to accelerate tax payments.

It has been parked for now, having previously had an April 2018 implementation for some. Brexit was the excuse, but seeing as HMRC's digital links for 2016-17 tax returns are still not functioning fully at the time of writing, I suspect they knew the timetable was too ambitious.

It remains to be seen how this will impact on businesses and your accountant should keep you informed over the coming years to ensure you are best placed for the inevitable new digital reporting.

VAT registration

Most medics are not VAT-registered, as medical services are exempt from VAT. But for those carrying out medico-legal or other non-medical services, it is important that you understand the additional requirements of being VAT-registered.

Unlike the general tax inspector, the VAT inspectors will periodically inspect the records and this will happen on a cycle; for example, every three or four years. Having robust systems is essential, as you are acting as a collector of tax for HMRC and there is no tolerance for inaccuracies when it comes to VAT.

Common areas for tax return inaccuracies

These include:

- Omission of bank interest;
- Salary details incorrect;
- Overclaim of costs against salaried earnings;
- Gains/income from investments omitted;
- Child Benefit not repaid when not entitled;
- Student loan inaccuracies;
- Property income omitted or not reflective of true ownership;
- Excess pension savings.

Keeping yourself protected from the long arm of the taxman is important and it is always best to get things right from day one rather than having to remediate your systems later on.

Speak to your accountant to ensure that you understand your affairs in detail, particularly if you are engaging in tax-efficient structures or products.

Choose an accountant wisely and you should find that this alone helps shield you from unwanted attention from the taxman.

■ Next month: Property taxes explained

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