Tax investigations update.

The government has promised HMRC a further £800m to pursue non-compliance and tax evasion, with £300m to be spent on targeting SMEs and wealthy individuals and £36m focused on trusts, pension schemes and non-domiciled individuals.

There is a common misconception held that HMRC do not have enough staff to deliver the compliance targets being demanded. The figures tell a different story.

Back in March 2011, 38% of HMRC's workforce was involved with enforcement and compliance work. However, by March 2015, that figure had risen to 46%. That means nearly half of the entire HMRC workforce, some 26,222 people, are involved in some form of action to deliver extra revenue for the Chancellor.

Focus

According to HMRC's calculations, the current tax gap is £34bn, with:

- **44% of the tax gap attributable to SMEs**
- **12% down to individuals failing to declare and pay the right amount of tax**

As a consequence, SMEs and wealthy individuals are going to find themselves under tighter scrutiny than ever before, as HMRC seeks to reduce the tax gap between the total tax collectable and the amount actually collected.

Initiatives

Many people are already aware of HMRC's award winning Connect technology which helps identify risks on tax returns submitted by individuals, partnerships and companies. Connect matches information held by other government agencies, tax evasion reports made by the public, social media profiling and data provided by third parties such as banks and letting agents to name a few.

HMRC is exploiting this data further by moving all of this information into a single storage space called the 'enterprise data hub', where tax staff will see everything they need to know about an individual in one place. The new hub will give HMRC the capacity to store 960 terabytes of data – ten times more than the current capacity and 20 times more than the Hubble Space Telescope has collected in the past 20 years.

In addition, HMRC is seeking an extension of its data gathering powers. In 2013 HMRC obtained new powers to collect data from merchant acquirers – businesses that process credit and debit card transactions. The government has now announced its intention to legislate to extend access to data held by 'business intermediaries' and 'electronic payment providers'.

Business intermediaries include booking and reservation companies such as those that take payment for hotel and holiday accommodation, restaurants supplying take away food and outlets reselling tickets for music concerts and theatre productions.

Electronic payment providers facilitate different ways of paying, such as digital wallets, which can be used in conjunction with mobile payment systems that allow individuals to make purchases with their smartphones.

In other words, HMRC's risk assessment process is becoming wider and increasingly focused, as more data is collated and analysed.

In practice

The data HMRC receives can lead to enquiries being opened with specific figures quoted, such as in the example of an online trader:

'Ebay records show you became a business seller on 1 May 2009 and you have sold at least 19,523 items since that date. Please provide copies of your PayPal accounts to substantiate the figures declared on your tax return.'

In the example of a landlord, it is not uncommon for HMRC to list the property address and ask for evidence of how the purchase was funded. In this type of scenario, HMRC is not just keen on checking the rental income received based on Voters List entries, but also how much cash was required to buy the property, on top of any mortgage.

Once the cash figure is known, the tax inspector will then want to know where the cash has come from:

'Land Registry information shows you bought 13 University Way on 16 April 2013 for £175,000. Details are also held which confirm the house is lived in by multiple tenants. Please provide a copy of your solicitor's completion statement showing how you funded the purchase of the property, as well as your rental records, including tenancy agreements.'

Connect means that HMRC's tax enquiries are targeted and based on reliable information. Gone are the days of a speculative investigation which is why tax investigation protection is so important. Providing evidence of a cash injection into a business or acquiring a property can often expose the individual's private bank account to scrutiny by HMRC and that can lead to ever more intrusive questioning.

Task forces

Investigations can also be triggered by HMRC task forces tackling a specific risk amongst a group of people, within a designated geographical area.

In this tax year so far, HMRC has been targeting the restaurant sector, the construction industry and 'hidden wealth' in particular, where tax officers call upon individuals who are apparently living beyond their declared means. HMRC may have information about an offshore bank account, an expensive asset like a yacht or luxury car or even images from Google Earth showing a large extension.