



Business Record Checks

Why has HMRC chosen me ?

The guidance provided by HM Revenue & Customs (HMRC) so far suggests the first batch of Small or Medium sized Enterprises (SMEs) selected for Business Record Checks (BRC) are those which have consistently filed late returns, or those which have filed tax returns which appear to include estimated or round sums.

HMRC has chosen these SMEs because it believes these factors create doubt about the completeness of the business records being maintained and the subsequent accuracy of the tax, vat and company returns being filed.

In addition to these generic factors, HMRC also undertakes a 'risk' analysis of trades and professions, to identify common opportunities for SMEs to understate their income or claim excessive expenditure. The risk analysis process helps HMRC choose businesses for record checks and to select tax and company returns for aspect or full enquiries.

Our experienced Consultancy Team of former HMRC Inspectors has chosen a selection of trades and professions as examples. For each, three risk areas have been highlighted, to give SMEs a wider understanding of HMRC's analysis process and the questions it asks itself.

Trades and Professions

In alphabetical order, not likelihood of selection.

| Trade / Profession | Risk areas |
|--|--|
| Corner shop – including newsagents and general stores | <ul style="list-style-type: none"> • Has the shop declared all income, including all food, alcohol, lottery sales, telephone top ups and Western Union commission ? • Has VAT been operated correctly through the till differentiating standard rated, exempt or zero rated goods ? • Does the shop employ staff including paperboys/girls and, if so, is PAYE being operated correctly with P46s completed where necessary ? |
| Guest Accommodation – including bed and breakfast, guest houses and hotels | <ul style="list-style-type: none"> • How many rooms are available to generate income, not just from overnight stays, but from weddings and conferences ? • Do the premises have a bar and/or restaurant open to non residents ? • Has the income from all potential streams been declared ? |
| Hairdressers | <ul style="list-style-type: none"> • Is the hairdresser the business owner or does he/she rent a chair from a third party ? • If renting a chair, is the hairdresser genuinely self employed ? • Is the hairdresser recording all income, including all tips ? |
| IT Consultants | <ul style="list-style-type: none"> • Are services provided through a limited company and have IR35 implications been considered ? • What control and financial risk does the consultant have in fulfilling his/her contract ? • Have the expenses claimed been wholly and exclusively incurred in the performance of the contracts undertaken ? |
| Landlords | <ul style="list-style-type: none"> • When did the landlord acquire the let property and how was it paid for ? • Where did the money come from to fund the purchase ? • Do the Voters List entries and number of tenants in residence support the level of gross rental declared ? |

**Medical Consultants
– including hospital
consultants and locum
pharmacists**

- Has the consultant declared all income, including all commissions received from medical companies, fees for medico legal work and appearances as an expert witness ?
- Does the consultant appear to have claimed business mileage treating the home as the business base ?
- Has the consultant claimed travel and accommodation for attending a conference, potentially with his/her partner, making the trip partly private and not all business allowable ?

Public Houses

- Has the publican declared all sources of income from alcohol, food, off site sales, gaming machines, pool tables and jukeboxes ?
- Does the publican live with his/her family above the pub and, if so, are the private use adjustments for accommodation and food adequate ?
- Is the publican employing any casual bar/ kitchen staff and is PAYE being operated correctly ?

**Restaurants
– including cafes, fish and
chip shops and takeaways**

- Has the restaurant declared all sources of income from food, alcohol and home deliveries ?
- Does the restaurant owner buy food separately for own consumption, or is he/she eating the business stock ?
- How many floors does the restaurant building have and are any of the rooms above being let ?

**Subcontractors
– including builders,
electricians, plumbers,
plasterers and roofers**

- Has the subcontractor declared all income from physical work, as well as from any marked up materials used ?
- Has the subcontractor engaged anyone to work for him and operated PAYE/CIS correctly ?
- Has the subcontractor applied any private use adjustments to his motoring or telephone expenditure ?

**Taxi Drivers
– including black cabs and
private hire**

- Has all of the income, including tips, been declared ?
- How many miles has the cab undertaken and how many of those miles are likely to have been engaged miles earning a fare ?
- How much fuel has been bought and does the fuel to takings ratio look credible ?

Summary

The Treasury has tasked HMRC with bringing in £7 billion additional revenue a year by 2014/15. HMRC intends to collect this revenue by increasing its efforts through compliance activity, incorporating business record checks and enquiry work, alongside tackling tax avoidance and evasion.

SMEs and entrepreneurs should be aware of the backdrop against which HMRC is working and its need to find errors, in either business record keeping or accounts, which will help it generate extra revenue to help it meet its target.

If you would like to discuss this article in more detail, please contact our Consultancy Team on 0870 166 6270 or email marketing@abbeytax.co.uk