



Business Records Checks : Meat on the Bones



HM Revenue & Customs (HMRC) has moved to beef up its approach to Business Records Checks (BRC), as the latest round of visits begins.

In brief

During the 'Test and Learn' pilot exercise, BRC visits were arranged by Blackburn, Oxford, Plymouth and Swindon, but from next week a new dedicated team in Coleraine tax office will handle all future BRC booking arrangements for the entire UK.

The initial 'Test and Learn' visits were conducted by a skeletal team of 30 HMRC staff, who only covered parts of the UK. This number has been supplemented by a further 90 recruits, who volunteered from across the HMRC disciplines i.e. Tax, PAYE, VAT. The newly trained BRC officers have all received 180 hours of training and are spread across the UK, to make sure every postcode is covered.

This news has emerged following the announcement last week that HMRC intends to undertake 12,000 BRC visits by the end of this tax year and 20,000 annually from 6 April 2012.

Despite the increase in staff and visits, HMRC has still not clarified whether BRC visits are a '*compliance check*' or an '*educational exercise*'. HMRC has also failed to define what constitutes a significant record keeping failure, which is the HMRC trigger for a record keeping fine of up to £3,000.

When asked, the BRC officers simply reply that the objective of their activity is to reduce the tax gap, rather than generate additional yield for HMRC from record keeping fines.

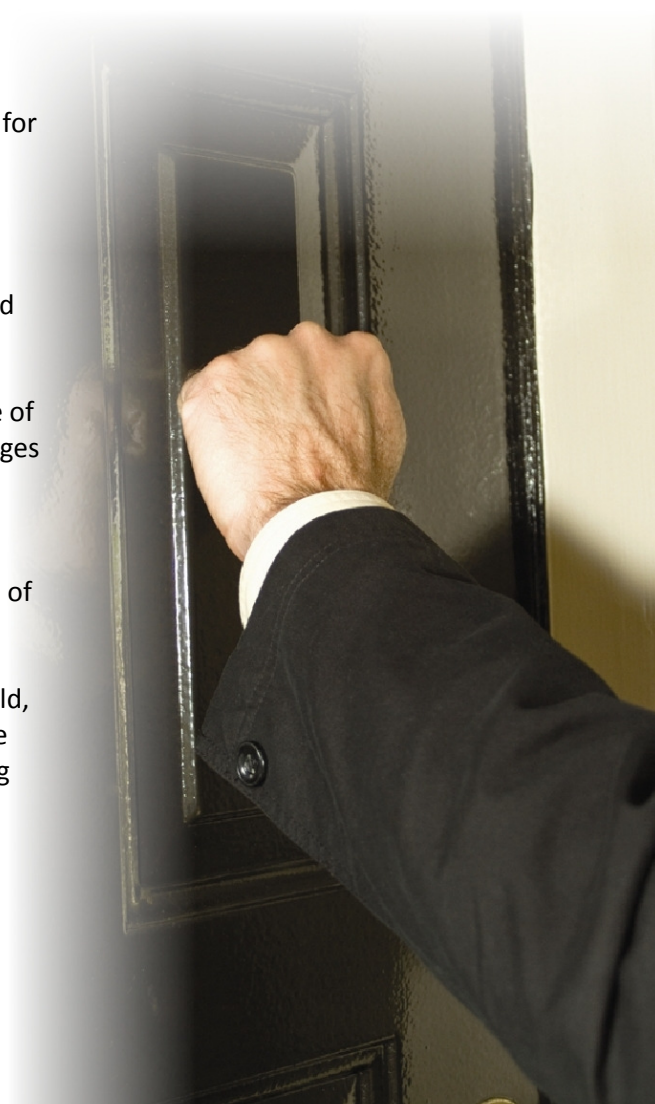
What questions do the BRC officers typically ask?

After the initial introductions, the two BRC officers begin by asking general questions about the nature of the business, which take around 30 to 45 minutes.

For a business providing a service, the topics covered include the type of work done, how work is obtained, whether there have been any changes over the years in the type of business activity, whether there are any peaks and troughs in work, how work is billed for, how often work is billed for, what form of payment is accepted i.e. BACS, cheque etc., where the payment is banked, who does the banking and an estimate of the average monthly turnover.

For a retail business, the topics covered include the range of goods sold, how sales are generated, whether there have been any changes in the product mix of goods sold over the years or any other factors affecting trade, how sales are recorded and when, what form of payment is accepted i.e. cash, credit card etc., where sales are banked, who does the banking and an estimate of monthly takings.

The questions then move on to the business owner/accountant relationship.





The topics covered here are detailed. The BRC officers ask what business records and supporting documents are provided to the accountant, when the records and documents are handed over and whether any advice is then given by the accountant to the business owner. The BRC officers go on to ask whether any estimated figures are included in the year end accounts and question whether the accounts are actually checked before signing off and entry on to the Company or Self Assessment Tax Return.

The final questions revolve around the operation of PAYE and VAT.

Typical questions here relate to the type of work carried out by any members of staff, how much they are paid, how often they are paid and a request for confirmation of the PAYE scheme reference. The VAT questions centre on how VAT is charged and recorded and what separate VAT records are maintained.

What records do the BRC officers expect to see?

Income

- Sales invoices / till rolls
- Business bank account statements
- Paying in books

Expenditure

- Original expense receipt vouchers / purchase invoices
- Any supporting spreadsheets or other record showing how the expenses are categorised
- Business cheque book stubs
- Business credit card statements
- Cash book showing any cash payments made
- Drawings record
- Mileage log with business journeys identified
- PAYE records
- VAT records

What checks do the BRC officers then do?

The officers ask for the business records and split them between income and expenditure. They then explain that they want to follow the audit trail of money being billed and received, alongside money being charged and paid out.

Income

- With a business providing a service, the BRC officers pick a selection of the sales invoices and check that the invoices are numbered consecutively, give a description of the work done and clearly show the VAT registration number.
- Payment of the selected sales invoices is then matched to the paying in book (if paid by cheque/cash) and then the relevant business bank account statement.
- With a retail business, the BRC officers pick a selection of till rolls and check to see whether the till is set up correctly with an accurate date and time. The level of detail recorded on the till roll is also checked e.g. to see whether VATable and non VATable items are differentiated.

Expenditure

- The BRC officers identify any items of expenditure with a dual business and private purpose, such as petrol. Using petrol as the example, the officers typically select a sample of petrol receipts and compare them to the mileage log and the journeys listed.
- The recording of cash expenditure is also reviewed, with BRC officers expecting to see a cash book summary and a record of all cash paid out.
- Other checks are carried out, but are too numerous to list here and are specific to certain types of profession, trade and business.



Top Tips

1.	Make sure you remind yourself of any details you have posted online, either on your business website if you have one, or your Linked In profile, Twitter or Facebook accounts. The BRC officers will have checked any online information they can and refer to it during the course of the visit.
2.	The BRC officers will normally expect to see business records covering the three months prior to the date of the visit, including the last VAT return. Make sure the business records are all accessible and split between income and expenditure.
3.	Make sure you allow enough time for the BRC visit to take place. The visits typically take 2 hours at a bare minimum, but can last up to 5 hours.
4.	Make sure you only answer the questions asked of you. Wait for the question, answer it and stop. Do not give any more detail than requested and potentially open up further areas for HMRC to target.

And finally

Once the visit has drawn to a close, the BRC officers talk about the quality of the business records they have seen and express a view on the record keeping procedures in place.

If the BRC officers are happy, a letter will be issued confirming the business records are **adequate**. If the BRC officers are unhappy, a letter will be issued confirming the business records are **inadequate** and a list of recommended improvements will be listed in the letter. Those businesses deemed to have inadequate records can expect a revisit from the BRC officers, usually three months after the initial visit. During the revisit, the BRC officers check to see that the recommended improvements have been made in the intervening period.

Overview

There is little doubt that HMRC is yet to finalise its approach to Business Records Checks and is still effectively in an extended 'Test and Learn' phase. However, the BRC officers have received extensive training and are rapidly gaining experience as they undertake more varied visits into a wider cross section of businesses.

There is also little doubt that some of the questions and actions taken by the BRC officers during their visits could be interpreted as overstepping into enquiry work. Business owners and accountants need to tread carefully and consider how much detail to provide in response to some questions. The objective of the Business Records Checks initiative needs to be kept in focus. The visits are supposed to be about HMRC making sure detailed records are maintained, in order for an accurate Tax Return to be completed. They should not be about testing whether an expense is allowable or not.

The Abbey Tax ReSource Consultancy Team will continue to monitor developments and provide further updates. Please contact our marketing team on **0870 166 6270** or email **marketing@abbeytax.co.uk** for more information.