



Ding dong! Inland Revenue calling!

So what do you do when your friendly Inland Revenue inspector rings the office doorbell? Do you procure the tea and biscuits? **Martin Murray** offers his advice

A revenue enquiry can, for most doctors, cause the greatest amount of anxiety in their professional career. It is an unfortunate fact that the majority of you reading this will at some point in your career be selected for a Revenue enquiry.

However, it need not be doom and gloom, as there is much that you can do to minimise the impact and ensure that professional fees, any additional tax and penalties are kept to a minimum. Before looking at what action to take, let's consider the different types of Revenue enquiries.

Aspect and full-blown enquiries

Revenue enquiries fall under two general categories. The first is an aspect enquiry, the most common experienced by doctors. Basically, the inspector of taxes is seeking clarification of entries in your financial accounts or tax return. Depending on its nature, this can be sorted in one or two pieces of correspondence or it may take several months, culminating in a meeting with the inspector.

The second type is a full enquiry, which will cover practically everything relating to your finances and can, on average, take between one to two years to resolve. Although not common for doctors, it is in the majority of cases emotively charged, as personal details are enquired into.

Unfortunately, the opening letter advising a doctor that he or she has been selected for a Revenue enquiry does not distinguish between an aspect or a full enquiry. The accountant will be trained and experienced to identify the type generated by the Revenue. Copy correspondence advising the accountant of the enquiry is not sent until the doctor has received the original, so if you phone your accountant, generally, he or she will not have received their copy.

Insurance

To protect you against the additional costs of accountancy and possibly legal assistance, there are various companies

that provide insurance. Most accountants can arrange this for you, as they will have a dedicated scheme provider. The policies do not cover any additional tax that may be payable. They only cover professional assistance up to a limit, which for most is between £50,000 to £75,000.

Check the likely cost of a Revenue enquiry with your accountant. In my experience, an aspect enquiry can cost anywhere from £300 to £2,000, whereas in a full enquiry, the minimum is around £2,500. Depending on how extensive the enquiry is, this can rise significantly.

Action points

To minimise the impact of a Revenue enquiry, there are several simple steps:

1. Ensure that you can follow an appointment in your diary through to the consultation, the procedure, the fee being issued, the receipt of the fee and ultimately the deposit at the bank.
2. If an appointment is cancelled, make sure the diary is marked appropriately.
3. Make sure that there is a regular check of what has been received and paid out of the bank account and compare this to the bank statements. Make a note of what has yet to clear the bank in respect of deposits and withdrawals, otherwise known as bank reconciliation.
4. Do not keep large amounts of cash on the premises.
5. Keep a cash float of no more than £500. If any cash is received do not use this to replenish the float. Deposit it in the bank. Make separate withdrawals from the bank to replenish the float.
6. Make sure all invoices and credit notes are sequentially numbered. If there are gaps, ensure there are explanations.
7. Try to ensure deposits and withdrawals are made from the business bank account and not personal accounts.
8. Ensure any large deposits in personal accounts are noted by way of an explanation, such as a simple note on the statement.

9. Keep a note of invoices paid and the associated cheque number.

10. Finally, keep all records for at least seven years.

The above is not an exhaustive list and may seem obvious or trivial to some. However, Revenue enquiries are by their very nature retrospective and through the passage of time, one's memory will fade.

The accountant

In most cases, your accountant will be able to answer most questions raised by the inspector with minimal impact on your time. It is important that all correspondence with the inspector should be directed through the accountant to avoid any misunderstanding.

Find out if your accountant foresees any issues that may cause concern to the inspector and how best to resolve these. Ensure that all correspondence from the Revenue is dealt within the specified time allowed to avoid falling foul of any penalties.

If there is to be a meeting with the inspector, your accountant should know the areas to be covered and will have a good feel for what the outcome will be. Meetings with the inspector can resolve many issues that would have led to protracted correspondence.

In some circumstances if there are grey areas, the accountant and inspector may come to a reasonable compromise. If an agreement cannot be reached, an appeal can be made for the matter to be heard by the commissioners. In most cases this is not needed.

Finally, in any business there are errors, omissions or differences in opinion on the treatment of items for tax that may be highlighted in a Revenue enquiry, but what is most important and appreciated by the inspector is cooperation, which can have a big impact on his/her potential penalty loading.

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