

## STARTING A PRIVATE PRACTICE

# Make yourself less of a target for the taxman

Over the duration of your career, there is a pretty high chance that you will have an inquiry into your tax affairs from HM Revenue and Customs (HMRC) at some point. **Ian Tongue** (right) gives some useful guidance



FACING A TAXMAN'S inquiry is understandably a great source of anxiety for a doctor. But there are many things that you can do to ease the pain – and cost – if the HMRC starts looking into things.

## So what is an inquiry?

An inquiry is a check into your tax affairs and is how HMRC polices the self-assessment systems for individuals and firms.

When your tax return is submitted to HMRC, limited supporting information is provided to them and therefore the inquiry system seeks to confirm the accuracy of the figures recorded and, in some cases, it extends beyond the tax return itself.

An inquiry can take two forms, an 'aspect' or 'full' inquiry. An aspect inquiry is the most common form for doctors, although with HMRC's continued targeting of medics, more full inquiries have been seen in recent years.

The difference between the two types of inquiry is the depth and scope. An aspect inquiry is more targeted and is seeking to confirm certain entries on your tax return. A full inquiry extends this to look at your personal finances and, typically, HMRC requests most of your business and personal records.

It is typical for your accountant to largely deal with the inquiry on your behalf. However, significant amounts of information may be requested and, no doubt, your input will be required in certain areas.

Aspect inquiries are usually dealt within six months, but full inquiries can typically last between one and two years.

## How and why am I selected?

HMRC has the right to check any tax return submitted to it and, understandably, it does not disclose detailed information on how tax returns are selected. However, we do know that returns are 'risk assessed', with the higher-risk returns forming the bulk of inquiries and the rest being random checks. 'High risk' can be from the quantum of tax paid or nature of entries recorded.

Due to the ongoing targeting of medics, it would appear that, at present, the medical profession is graded higher risk than others.

Our experience of dealing exclusively for medics for over 30 years is that the vast majority are prudent with their finances and do not want to take risks with their tax affairs.

However, HMRC has the bit between its teeth, believing that there is widespread underdeclaration of income and overclaiming of expenses.

This led to the 'Tax Health Plan' – well reported in *Independent Practitioner Today* – during early 2010 which was an amnesty for doctors to retrospectively settle undisclosed tax liabilities for a fixed penalty.

The programme yielded very little additional tax and therefore HMRC has recently entered phase



two of the Tax Health Plan, which is anticipated to be a more targeted approach with ultimately higher penalties.

Given this heavy-handed approach, what is HMRC looking for? In simple terms, material undisclosed income and, in particular, 'awards' paid to consultants by insurers, usually directly and outside of their normal trading activity.

This also extends to overclaiming expenses such as 'motor and travel' which is an as yet unresolved ongoing issue at the time of going to press.

## What you can do to reduce risk and prepare for a probe

The key way to reduce risk is to ensure that the information used to prepare your tax return is as accurate and complete as possible, thereby reducing the risk of misstatement. This ultimately comes down to keeping proper accounting records.

HMRC has new powers to fine businesses in excess of £3,000 for not keeping proper records and it is therefore essential that your systems are adequate. It is worth noting that HMRC now has the powers to perform an 'in year' business records check and not just through the inquiry process.

You should speak with your accountant to ensure that your record-keeping is compliant and any recommended changes by them should be implemented.

In order to say that you have proper records, there must be a clear trail from the diarising of seeing a patient right through to the collection of payment from them or their insurers.

Therefore, your systems should

follow through an appointment in your diary to consultation, procedure, the fee being issued, the receipt of fee and ultimately the deposit in the bank.

Avoiding late submission of your tax return is also really important not only from the viewpoint of an inquiry but also in relation to filing penalties.

HMRC has new powers this year to substantially increase the fines levied on taxpayers for late submission. Even if no tax is due, penalties will apply, which is a change from the old system.

Avoid getting caught out by this and submit your accounting and tax records to your accountant as soon as possible after your financial year-end.

## What if an error is discovered?

If an error or mis-statement is discovered, HMRC can open up earlier years' tax returns to identify whether any other issues are present. So it is vital you keep records for at least seven years.

Following the conclusion that an underpayment exists, HMRC will determine the level of tax, interest and penalties to apply.

As regards penalties, HMRC applies a sliding scale depending on whether the inaccuracy is careless, deliberate or deliberate and concealed. If the inaccuracy is prompted – i.e. following an inquiry – the minimum penalty is 15% rising to 100% of the tax due.

## Next month: Financing options for equipment purchases

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## TIPS TO HELP EASE THE PAIN OF AN INQUIRY

- Keep proper accounting records
- Avoid mixing personal and business transactions – always maintain a separate bank account for business use
- Review your business bank account regularly for unexpected or unusual items and investigate these
- Avoid taking too many cash payments and ensure all is banked, retaining only a small petty cash float, if required
- Ensure that invoices and credit notes are sequentially numbered
- Retain all invoices for expenditure ensure the nature of the expense can easily be determined
- Ensure that you have a system to chase overdue debts
- Maintain a periodic mileage log to support motor and travel claims
- Ensure any self-employed individuals can support their status and are not employees – significant fines can occur from not operating a PAYE scheme

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## PROTECTION AGAINST THE PROFESSIONAL FEES OF AN INQUIRY

The costs of an inquiry can be substantial, particularly for a full inquiry which can run into several thousand pounds. In order to protect yourself from these professional fees, you may want to consider fee protection insurance.

These policies cover against the professional fees associated with the inquiry but not any resulting tax liability. Discuss this with your accountant if you would like to consider such a policy.

An HMRC inquiry will, no doubt, cause significant anxiety, but there are steps that can be taken to make this process as painless as possible.

Ask your accountant whether any improvements to your accounting systems and book-keeping should be made and implement their recommendations.