

Tax Investigations - What are they?

Noel Duffy recently looked at the question "Tax Investigations, can they be avoided?"

In the previous topic he gave pointers towards reducing the chance of being investigated, but no matter what steps you take there is always the possibility that you could be randomly selected. So, assuming that you get that unwelcome letter, what happens during an investigation?

Here, Bryan Regan gives a broad outline of what will be involved and at the end, highlights the books and records you must keep.

Initial Letter

The first you will know of an investigation is a letter from the Inspector of Taxes advising you that you have been selected for investigation. If you have an accountant, then the letter will merely state that the Revenue has requested information from your accountant. Sometimes this may only be clarification of a single point rather than a full enquiry, so do not sit on the letter and worry, phone your accountant to find out what has been asked.

Information Requested

Assuming that it is a full enquiry, what information will the Revenue require? Basically, it will be the business books and records used in preparing the figures for your business, which are then entered onto the tax return. The Inspector will also require further information on the preparation of the accounts, which your accountant will be able to give. Remember though, that the Revenue are making enquiries into your tax return, not just the business accounts, and so personal information may be required, particularly regarding pension contributions / investments. There is a debate as to whether or not you should provide private bank statements. Certainly, if your business receipts are paid into that account then you should, but current advice is that they should not be provided until after the Inspector has looked through the business records.

Once he has completed his initial review of the books there may be an exchange of correspondence between the Inspector and your accountant but at some stage the Inspector will ask for a meeting.

Meeting The Inspector

Generally these meetings will be at the Revenue office but some may be at your premises. The purpose of these meetings is for the Inspector to obtain information to enable him to understand how the business operates, the type of lifestyle you lead and whether or not these tie in with the impression given by the books. There will also be specific questions relating to transactions in the books.

FAQ'S

Common questions at these meetings are:

Do you drink?

Do you smoke?

What car do you drive?

Where do you go on holiday?

Where are your customers based?

How do you cost your jobs?

What staff do you have?

What work does your wife do?

How much work do you do from home?

Do you do any jobs for cash?

Points Arising From Meeting

The most common point arising from the Inspectors' review will be unidentified lodgements, quite often into personal bank accounts. Accountants, as a rule, do not ask for personal bank statements and this may hold as many terrors for them as for you. The Inspector might also compare taxed income with total expenditure and ask for an explanation regarding any excess.

There might also be discussions over items of expenditure and whether or not they are allowable, either in full or in part. These discussions typically relate to use of home as office and private motoring.

Revenue Conclusion

Generally, discussions regarding the allowability of expenses can be argued and agreement reached with the Inspector. The major problem is unidentified receipts, if no explanation can be found for unidentified banking or excess cash expenses, the Revenue will treat these as additional income, no matter how innocent you state the bankings are.

The following records must be kept for six years.

Cash Book Purchase Invoices
Bank Statements Sales Invoices
Cheque Books Wages Records
Paying in Books

Cash recording papers: Till rolls; Cash taking records;
Time Records: Diaries
Personal Items: Bank statements; Chequebooks; Paying in books;
Interest certificates; Dividend vouchers.

Recommendations:

Keep comprehensive records of all business transactions and for tax return entries

Use an accountant to produce your annual tax return

Insure yourself against investigation costs

Use your accountant during the investigation

Good Luck

The above advice is given in good faith. Individual circumstances differ, no action should be taken without regard to these personal circumstances. Accordingly, please consult your professional adviser. If you wish to talk to one of our partners or tax consultants, please do so. The first hour is free and without obligation.