

O C T O B E R 2 0 2 4

# SPOTLIGHT ON:

## Handling a personal tax compliance check



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# HOW TO DEAL WITH A COMPLIANCE CHECK FROM HMRC.

**P**ersonal tax compliance checks can sound intimidating. However, with the right preparation and understanding, they don't have to be. In this spotlight, we aim to walk you through what to expect during a tax compliance check, how to stay organised and ways to handle the process smoothly.

By offering clear, straightforward advice, we hope to give you confidence in facing any compliance check that may come your way.



## WHAT IS A PERSONAL TAX COMPLIANCE CHECK?

A personal tax compliance check is essentially an enquiry from HMRC into your tax return. It could be triggered by anything from simple errors to unusual activity, but it doesn't necessarily mean you've done something wrong. HMRC conducts these checks to ensure that the information on your tax return is accurate and in line with UK tax laws.

Most checks are random or part of routine checks, and in many cases, they may only involve minor clarifications. It's worth noting that HMRC's advanced data analysis systems now flag potential issues with increasing precision.

According to HMRC's data, around £33bn was lost in the 2021/22 tax year due to errors and failure to take reasonable care, making these checks a priority for the government.

## WHY MIGHT YOU BE SELECTED?

HMRC might select your tax return for review for a few common reasons. These could include:

- inconsistent information or discrepancies between your tax return and the data HMRC holds
- missing information or failing to declare income from various sources
- a significant change in income from one year to the next
- regularly filing late returns
- higher-risk occupations or industries (like cash-based businesses)
- random selection as part of HMRC's routine investigations.

Understanding why you may be selected can help you respond more effectively to HMRC's queries. Rest assured that, in most cases, checks are resolved quickly and without penalties, provided there is no evidence of intentional wrongdoing.

## HOW HMRC SELECTS RETURNS FOR REVIEW

HMRC uses advanced technology and human insight to decide which tax returns to review. The Connect system, introduced in 2010, plays a significant role in this process. This system collects and analyses data from a variety of sources, including banks, employers, government departments and even social media. It then compares this data to the information provided in tax returns to identify discrepancies. In recent years, HMRC has emphasised using technology to ensure accurate tax returns, reducing the need for manual investigations.

While the majority of compliance checks are automated and randomly selected, certain behaviours can increase your chances of being flagged. If you're self-employed, earn income from multiple sources or work in industries that deal heavily in cash, such as hospitality or construction, your returns may be subject to closer scrutiny.

Furthermore, high-value transactions or significant changes in financial circumstances may trigger an investigation. HMRC is focused on ensuring that everyone pays their fair share, but the vast majority of checks are resolved without issue when the correct information is provided.



## WHAT HAPPENS DURING A COMPLIANCE CHECK?

Once selected, HMRC will contact you by letter to inform you that they are conducting a compliance check. This letter will outline the areas of your tax return they wish to review and may request supporting documents such as bank statements, invoices or receipts.

It's essential to respond to this letter promptly. If you're unsure about any part of the request or the information you're being asked to provide, seek professional advice as soon as possible.

HMRC typically gives you 30 days to respond, but you can request an extension if necessary.

Depending on the outcome, the check could take a few different paths.

- **No further action:** If everything is in order, HMRC may close the enquiry without changing your tax return.
- **Minor adjustments:** If HMRC finds minor errors, they may adjust your tax return accordingly. You may need to pay any additional tax due or be refunded if you've overpaid.
- **Further investigation:** If HMRC finds more significant issues, they could extend the check, and you might face penalties or interest on unpaid tax. In rare cases, HMRC may conduct a full audit.

*The best way to protect yourself during a compliance check is to keep accurate and thorough records of your income, expenses and deductions.*

## HOW TO PREPARE FOR A COMPLIANCE CHECK

Preparation is key to handling a tax compliance check with minimal stress. Here are some steps to ensure you're ready.

### 1. KEEP THOROUGH RECORDS

The best way to protect yourself during a compliance check is to keep accurate and thorough records of your income, expenses and deductions. HMRC requires you to keep records for at least five years after the submission deadline of the tax year they relate to.

This includes:

- bank statements
- payslips
- invoices
- receipts
- investment records
- pension contributions.

Good record-keeping can help you quickly provide the evidence HMRC may request and resolve any discrepancies that might arise during the check.

## 2. REVIEW YOUR TAX RETURN CAREFULLY

Before submitting your tax return, double-check that all the information is correct and complete. Look for common errors like mistyped figures, missed deductions or failing to declare all sources of income. If you use accounting software, ensure it is up-to-date and all data is accurately entered.

## 3. SEEK PROFESSIONAL ADVICE

If you're not confident in managing your tax affairs, consider working with a tax adviser or accountant. They can help you prepare your return, spot any potential issues, and ensure that everything complies with HMRC regulations. According to recent statistics, around 65% of UK taxpayers use professional assistance to file their taxes, which can significantly reduce the risk of errors.

## 4. RESPOND PROMPTLY AND CLEARLY

When HMRC contacts you regarding a compliance check, respond to their letter quickly. Provide the requested information and documents in a clear and organised manner, and make sure that everything is legible and easy to understand. If you need extra time to gather the necessary records, let HMRC know as soon as possible, and they may grant you an extension.

*“If you're not confident in managing your tax affairs, consider working with a tax adviser or accountant.”*



## POTENTIAL OUTCOMES AND PENALTIES

Most compliance checks end with minimal disruption. However, if HMRC identifies errors or omissions, they may ask you to make additional payments or amend your return. In more serious cases, you could face penalties or interest on unpaid tax.

HMRC calculates penalties based on the nature of the error.

- **Careless mistakes:** If you've made a genuine mistake without trying to underpay your tax, penalties could range from 0% to 30% of the additional tax due.
- **Deliberate underpayment:** If HMRC finds evidence that you've deliberately understated your income or exaggerated your expenses, penalties could range from 20% to 70% of the additional tax due.
- **Deliberate underpayment with concealment:** In cases where taxpayers have attempted to hide their errors, penalties can rise to between 30% and 100%.

In rare cases, deliberate fraud or evasion could result in prosecution, but for most individuals, the key to avoiding penalties is cooperation and transparency during the compliance check.

If you realise you have made an error, HMRC is more likely to reduce a penalty or apply a lower percentage if the error is proactively disclosed rather than waiting for them to identify it. Providing HMRC with timely access to the necessary information in a straightforward manner can also help mitigate the penalty.



## HOW TO DISPUTE AN OUTCOME

If you disagree with the outcome of a compliance check, you have options. HMRC allows you to request a review of their decision, which involves a different officer assessing your case.

You'll need to submit this request within 30 days of receiving HMRC's findings. Providing additional evidence or documentation supporting your position is essential during the review, especially if something was missed or misunderstood in the initial check. Disputes are often resolved at this stage, with HMRC amending their findings or providing clearer reasoning.

Should the review not resolve the issue to your satisfaction, the next step is to appeal to the tax tribunal. This independent body will examine the facts of the case and make an impartial decision. Most cases do not reach this stage, but knowing that a clear process is in place to protect your rights as a taxpayer is reassuring. Throughout this process, professional advice and support can make all the difference, ensuring your case is presented effectively and you understand each step of the process.





## HOW A PROFESSIONAL CAN HELP

Ultimately, a personal tax compliance check is part of HMRC's efforts to ensure fairness in the tax system. Most individuals can resolve these checks with minimal fuss by keeping good records, submitting accurate returns and responding promptly.

We're here to support you if you're unsure about any part of the process or if HMRC has contacted you and you need help navigating your compliance check. Our team of experienced accountants has helped numerous clients through similar situations, and we're ready to assist with advice, document preparation and professional representation.



**While compliance checks may seem daunting, they are manageable with the right preparation and expert guidance. Please don't hesitate to get in touch with us if you require assistance.**

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