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Tax Investigations

The idea of an HMRC tax investigation strikes fear into any business. Where cool heads are required, instead pulses start racing, frantic document searches begin and professional costs start to run away.

At Nasa Consulting, our team have experienced countless investigations on behalf of our clients and the point of this article is to forewarn; and forearm you to prevent a disaster scenario with tax and costs if the tax inspector appears.

Why you?

Tax inspections are generally triggered by one of two things. The first is a random selection by HMRC of companies whilst the second trigger is the failure by companies to do accounts, VAT returns, payroll returns etc on time.

Generally HMRC only inspect a small percentage of companies every year by random selection. This means you could go 6 or 7 years without the tax man visiting while on the other hand, it could be within the first 2 to 3 years of trading that they pay a visit.

Most investigations are compliance driven. HMRC have percentage targets of companies which they must inspect in any one year which are generally in focussed areas like payroll, VAT, corporation tax or IR35. The inspectors have a long list of pre-determined questions and checks to work through, with even the shortest inspection lasting several hours.

Are they expensive?

Yes, accountants' time is generally expensive for tax investigations and can range from between £75 per hour for admin works to over £300 per hour for complex case law work or legal arguments. The relieving news is there are several insurance policies available, including one mentioned below for £75 per annum, which cover the whole cost of your advisors time and defence.

Insurance is not as critical if the inspection only lasts a morning and covers a routine checklist of items, but if HMRC want to delve into any of your works or taxes paid, investigations can last a year or more and can even involve a tax tribunal and barristers being required to determine the outcome of the disputed application of tax rules.



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Obviously for businesses that keep their records in order and that only put genuine business expenses through their books, the inspections are quicker to handle and cheaper on the bank balance.

What do we do at Nasa Consulting?

For our clients one of the first steps we take is to arrange any inspection to be handled at our offices. We have unfortunately in our dealings found that some tax inspectors deliberately mislead clients on tax interpretations. As a consequence of this issue, and in order to relieve you of the time and stress of an inspection, we are best placed to host the tax inspectors and to any issues escalating where possible.

We are also extremely focussed on the laws behind taxes (such as IR35) and where specialist argument and defence is needed, we argue the law in addition to handling the administration of the tax inspection.

How do you remove the cost of an inspection?

Your first point of call to cover the fees is with your existing insurers. Many professional indemnity policies include cover for tax investigations and this should be checked with your insurer. For those without these policies, there are insurers in the market who will cover the accountancy costs as a stand alone policy. Counce O'Hara (Tel: 0161 833 2100) offer this policy for around £75 per annum, however, there are other policies around and it is worth checking with your insurers first. Unfortunately their website is not helpful at selecting this policy and it is best to call them to discuss this.

Good business management

Our belief at Nasa Consulting is that all companies should take out tax inspection insurance. For a small price, all the concerns of an investigation can be taken away and where a rigorous defence is required, you do not need to worry about skimping on putting that defence in place.