

Ten of the taxman's sneakiest tactics

If the taxman decides to investigate you, get ready for a nightmare.

Nick Morgan offers some handy hints

THE Revenue is constantly telling us that "tax doesn't have to be taxing". So, like more than 4m of us, I completed my own self-assessment return and when I got a letter saying an inquiry was being opened into my tax affairs I wasn't frightened — I had nothing to hide. What a naive fool.

No detail was too small to question. A £10 David Beckham autobiography — bought for research — quickly became of great interest. A senior inspector said: "Are there any documents to show that you purchased the David Beckham book in the belief that you would get to interview him? Otherwise there is nothing that shows it was not purchased for your own enjoyment." This was only the beginning.

The inspector presented me with a frightening blur of figures on stacks of official headed paper. I was told there was "a lot wrong" with my tax return and that I was considered to "have shown neglect".

In January last year I used the 1998 Data Protection Act to get copies of my Revenue file, which anybody can do. Two months later the true picture of the investigation emerged. The senior inspector — so bullish on the phone and on headed paper — admitted in an e-mail to a colleague: "I haven't insulted him. Mostly I was ... trying to make him go away". And in a separate email she said: "I'm feeling a bit lost in all this ... it's not a large settlement."

Stephen Camm, a former Revenue man and now head of tax investigations at accountant Price Waterhouse Coopers, estimates the cost of an investigation to the taxpayer could be as high as £50,000. And how much tax does the Revenue hope to get from me? In September, it sent documents setting the figure at £2,530.

Here are 10 things you need to know about tax investigations and what the Revenue would rather keep quiet.

1 Tax is not simple

Advertising frontman and scientist Adam Hart-Davis, who has been delivering the "tax doesn't have to be taxing" line for five years, spoke out in January, saying the tax system was too complex.

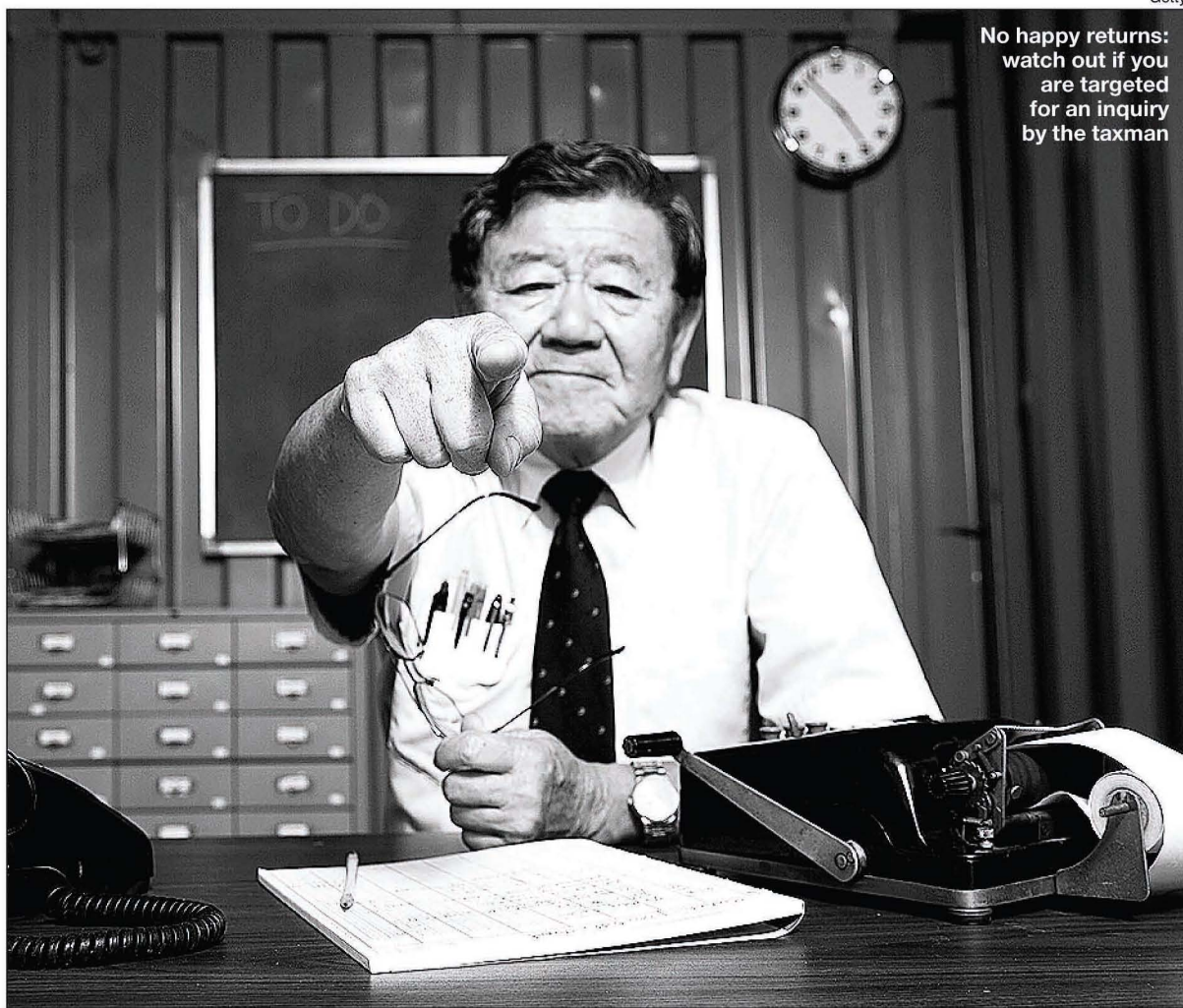
The National Audit Office estimates a third of self-assessment returns are incorrect — not surprising when a recent civil service review admitted one in four of us asking the taxman for advice was given "incomplete or inaccurate information".

2 Stick to your guns

I put in expenses of just under £4,000. After a year I was told I would be allowed just £1,000, but I dug my heels in and the figure went up to £3,000. Camm said: "In investigative cases there has always been a strong element of negotiation."

3 They bend the boundaries

When an investigation is opened it's normally an "aspect inquiry", which means the investigator can only look into a nar-



No happy returns: watch out if you are targeted for an inquiry by the taxman

row band of information. If they suspect wrongdoing, the investigation becomes a "full" inquiry, and if a "discovery" is made, the previous 20 years can come under scrutiny.

What constitutes discovery is open to interpretation. Camm said: "It can appear that the Revenue says it has made a discovery at the drop of a hat; the trick is to question what that discovery really is."

John Whiting of the Low Incomes Tax Reform Group, which helps those who cannot afford tax advice, said: "There are certainly inspectors who will try it on. You have to understand that they are paid to collect tax, not to help the taxpayer."

The Revenue said: "It is in the interests

of accountants to suggest their services are an absolute necessity before engaging with HMRC. The reality is that 50% of taxpayers are not represented by accountants."

4 You are guilty unless you can prove otherwise

Unlike criminal law, the burden is on you to prove your innocence.

Let's say your grandmother gave you a cheque for £100 for your birthday four years ago. The taxman will look at your bank statements and question where that amount came from. If you can't explain and provide proof, they will most likely

assume that the money is undeclared income and you will be taxed on it.

5 The interview is a trap

In criminal investigations you are cautioned that what you say may be used against you — no such niceties are offered by the Revenue. You can be represented — which the taxman is very vocal about — but there are other rights they prefer to keep quiet about.

You can be interviewed at the location of your choice, you can ask for a detailed agenda beforehand and you can also record the interview.



Under investigation: Nick Morgan and his hefty file from the Revenue

Camm said: "An interview is voluntary, but advisable."

6 The lifestyle questionnaire is given for a reason

If the Revenue can't find any evidence, it will simply look at your lifestyle and calculate that it comes from an income of X. It knows your declared income is Y. It will then calculate your tax based on the difference. I was sent a questionnaire after my first interview. It looked innocent enough so I filled it in as honestly as I could — but it was little more than guesswork so I wrote "All figures are estimates" on the first and last page. That has not stopped the taxman using the figures as one of the main tools in its investigation.

7 It takes time

The investigation can drag on before the taxman presents a settlement offer. The settlement may be unfair, but the option is to go on paying high accountancy fees for months, possibly years.

Michael Reader, former inquiry officer turned author, said: "Accountants should not allow the client to be subject to any form of unfair settlement." The reality, though, is that most accountants are pragmatic and the Revenue banks on this.

8 The complaints team is an arm of investigation

Whatever you say to the complaints team is noted down, attached to your file and passed back. They make judgments about how determined you are or if you are angry. Notes obtained through the Data Protection Act on my case read: "He said he is prepared to go all the way — even to his MP," and: "He sounded agitated and frustrated, but well mannered and polite."

9 It doesn't tell you about the power to scale back

You are the subject of a long and stressful investigation, but just when you are suita-

bly stressed and scared, the taxman will dangle a carrot in your direction. This is a settlement figure that (you believe) will make the nightmare go away. The figure will be a little higher than you were expecting, but it's possible to pay it at a stretch — say £5,000.

Once you have signed on the dotted line, real figures start to emerge. The £5,000 is backdated, say over five years, making the figure £25,000. Then the Revenue adds interest (increasing the figure by at least another £5,000) and penalties too.

So what starts out as £5,000 can quite easily knock a hole in £50,000 — and once you have agreed to the initial £5,000 the taxman has got you.

This happened to me in the early stages of the investigation. After the case had been open for a year I got a letter saying, "I'm now in a position to settle my inquiry and propose the following ..." but the figures contained no mention of penalties, interest or scaling back.

It was only after talking to an accountant that I learnt what would happen. He pointed to my letter and said: "That figure is just the tip of the iceberg."

10 It is getting more power

Camm said: "Staff cuts have undeniably increased workloads, lowered skill levels and undermined Revenue staff's morale."

What is the response of the government? To give them more power.

Rob Lewis, at advice website Accountingweb.co.uk, said: "The Revenue now has the power to bug (only in criminal cases) and from April 2009 will have the right to carry out surprise spot-checks."

The Revenue said: "The chance of our bugging anyone in a routine tax inquiry is nil. These powers would only be used for the most serious of criminal cases. It's nonsense to link these powers to routine inquiries. We operate inquiries in a professional manner within codes of practice and within a framework. Our staff are well trained and act with integrity in a fair and reasonable way."

 Tell us if you have had a tax nightmare
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