

# Tax enquiries and investigations

Our insurer PfP reports that since its launch, HMRC have attributed £3 billion of its tax recoveries to their new computer system "Connect".



**From HMRC's perspective this represents a return of £37.50 for every one of the considerable number of pounds invested in the facility.**

Connect is an £80m computer system that allows HMRC to cross reference and check information supplied on tax returns (corporate, partnership, trust and individual income tax returns), with other data held on individuals' and businesses' finances. This data can be stored elsewhere and Connect has the ability to gather information from multiple public and private sources, allowing for the quick identification of any discrepancies or under reporting.

The system gathers information from over 30 databases covering details of a taxpayer's salaries, bank accounts, loans, property, and car ownership. HMRC also has powers to request one-off bulk data from third parties where there may be particular cause for concern. For example, insurance companies, hospitals and dentists were all required to supply data to assist HMRC with their focus on workers in the health and wellbeing professions, "The Health and Wellbeing Tax Plan". This campaign effectively invited such individuals to "bring their tax affairs up to date" and is just one of a number of initiatives aimed at particular sectors (e.g. landlords and plumbers to name but two).

Indeed and to some degree, such surveillance can have the flavour of "Big Brother" about it. Connect also allows HMRC to "zoom in" on an individual and focus on their day to day activities. Officials can now track ticket sales and passenger information supplied by airlines. Frequent flights can raise questions about how an individual is funding a jet-set lifestyle whilst regular trips to known tax havens like Monaco may also raise concerns. The data can also generate questions relating

to an individual's tax "residence" status, and possible and broader concerns around matters relating to "domicile".

In many respects and for the law abiding majority, this is good news. After all, we all need to pay "the right amount of tax" (but not a penny more). However, the rigidity of the database system means that red flags can be raised in relation to a taxpayer's affairs where there should be no real cause for concern. We all have experience of how computer "logic" can be anything other than logical!

In the event of HMRC launching an enquiry (whether it be an informal or more formal intervention), it needs to be addressed properly and robustly (they can be very aggressive and on occasion, unreasonable).

The cost of professional fees in our proving to HMRC that everything is in order (for example, establishing entitlement to a tax relief previously claimed) can be relatively high. The experience can also be quite traumatic for the taxpayer. In context, Old Mill is pleased to provide our "fee protection service". In the event of an enquiry, associated costs (our fees) are effectively underwritten so that clients do not have to bear these directly.

Our insurer reports that given HMRC's increased automation of the administration of tax, more and more resource is being allocated to enquiry related activity.



For more information, please contact:  
**Andrew Wholey**  
01749 335034  
andrew.wholey@oldmillgroup.co.uk