

Tax increases and decreases ahead

The Emergency Budget on 22 June 2010 delivered a raft of changes designed to align government spending with income over the lifetime of the current Parliament. The announcement received mass coverage regarding the changes to corporation tax, capital gains tax and the increase in the standard rate of VAT on 4 January 2011. If there are aspects of the announcements that you would like to discuss, please do contact us.

The UK is preparing for a difficult time as the Government pursues its twin policies of reducing the public debt and returning the economy to strong growth. It is also likely to be a time when we will see many changes to the tax regime for both businesses and private individuals.

So we thought it might be worthwhile to devote some of this edition to looking at the agency the Government relies upon to collect its taxes – HMRC. Governments come and governments go, but HMRC remains as an organisation that has its own culture, its own modus operandi, and its own strengths and weaknesses – and business owners and individual taxpayers alike would be wise to understand these – for they ignore them at their peril.

Are you prepared for a tax investigation?

With deficit reduction at the top of the Government's list of priorities it would surprise no one to see an increase in HMRC investigations in the coming months.

This is potentially bad news for smaller businesses that are unlikely to have finance departments that can deal with a full-scale investigation.

When the taxman visits a smaller business it can tie up a lot of senior managers' time and divert precious resources away from the important task of growing the business. It can also be very costly.

In truth, the yield from investigations into smaller businesses is proportionately much smaller than that gained from investigations into multinationals. For example, in the last twelve months, HMRC has yielded a staggering £4.9 billion from investigations into multinationals but a relatively paltry £359 million from Self Assessment business and personal tax enquiries. In fact, for every £1 HMRC spends on investigating multinationals it manages to claw back over £180, compared to just £10 from SMEs and private individuals.

Our advice to HMRC is – at a time when every business needs to concentrate on getting the economy back up to strength, give smaller businesses a break!

And our advice to business owners is to make sure you are prepared for the possibility of an investigation.

The most important step you can take is to ensure you are in a low risk category. Ever mindful of their scarce resources, HMRC conducts risk assessments to determine which businesses to investigate. If you are considered low risk, your chances of investigation are considerably lower for up to three years after the assessment is made.

If you have not already done so, we advise you to arrange a review with us so we can assess how your tax planning is likely to be viewed by HMRC and advise you on steps you can take to move to and remain in a low risk category.

And, don't forget, if you are targeted for an investigation we can provide full support throughout the process, including fully representing you to HMRC.

Be afraid – be very afraid

Spurred on by previous Governments, HMRC has undergone a marked change of emphasis over the years with tax avoidance, as opposed to tax evasion, moving up the agenda and being targeted with increasing frequency and ever-greater vigour. Indeed HMRC's Business Plan for 2010/11 contains an explicit reference to a crackdown on tax avoidance.

Story continues overleaf...

But it gets worse. HMRC is proposing new legislation that would criminalise any advice given to others on how they might reduce their tax exposure if it could result in a loss of tax paid – even if it doesn't actually result in a loss of tax, even if the advice is given freely or for a non-business purpose, and even if the advice is not given specifically to help someone with their tax affairs!

The proposals define loss of tax to mean 'loss of revenue from tax, and includes a loss involving a relief, deduction, repayment or credit of any kind.'

The draft legislation was published under the previous Government and it remains to be seen how it fares in the new political climate, but whether these proposals ever see the light of day or not they do nevertheless give us an insight into the culture of HMRC and serve as a reminder of the need to be diligent and professional in our dealings with them.

You couldn't make it up

Hard on the heels of their recent tax code debacle, which resulted in up to 100,000 workers paying too much tax, HMRC is now guilty of a devastating breach of privacy with 50,000 taxpayers receiving other people's personal details through the post.

Clearly HMRC is under resourced and overstretched, but errors such as these are unacceptable from an agency that is ruthless in holding taxpayers to account for even the most minor errors.

And it certainly does not bode well for the months ahead during which we can expect even more changes to the tax regime and even greater pressure to increase the tax take.

Will your business be affected by public sector cuts?

There is much talk of cuts to Government spending and their impact on public sector employees, but they will also impact on businesses in the private sector that do business with national and local Government agencies.

And, as we are all too frequently reminded, the first slew of cuts already announced is just the beginning, with much more radical surgery to come after the spending review in the autumn. These details will be announced on 23 October 2010.

If your business is or might be affected by public sector cuts here are some proactive steps you might consider taking:

Check any contracts you have and especially any penalties for either side terminating them prematurely

Talk to your contacts to see what cuts if any they anticipate and how they might affect you – and to seek any advice they might have on how you can protect your position

Consider ways in which you can make the products or services you provide more attractive or more competitive, and how far you would be prepared to go to renew or retain the contract

Consider what changes you might make to your business model to mitigate any loss of business you might suffer and/or reduce your dependency on public sector contracts

We have been warned that 'the years of plenty are over', and nowhere is this likely to be truer than in public sector spending. All businesses that deal with the public sector, therefore, should be prepared to open up another front in the ongoing battle for survival.

Data protection – now more important than ever

Notwithstanding HMRC's recent blunder, the Information Commissioner's Office (ICO) is now taking data protection far more seriously. As of April this year the ICO has the power to impose a fine of up to £500,000 for failure to comply with the Data Protection Act.

The severity of any penalty depends on a number of factors such as the type and sensitivity of information stored, the potential damage or distress caused by any breach, and most important, the extent to which the business has taken reasonable steps to comply with the Act and prevent any breach.

Businesses that collect information online should be particularly diligent in informing users how the information will be stored, how it will be used, and to whom it might be disclosed.

If you have not done so recently, we strongly recommend you review your online and offline information procedures and ensure you have taken all reasonable steps to comply with the Act.

Further advice, including Good Practice Notes, is available from the ICO's website: ico.gov.uk

How safe is your corporate identity?

Unfortunately, we frequently have to warn clients of the dangers of corporate fraud, and a recent survey gives us cause to issue yet another warning.

A report by the fraud prevention firm CPP reveals that identity thieves are targeting SMEs with as many as 100,000 businesses losing an average of £13,500 each.

Lax procedures and ineffective internal controls leave SMEs vulnerable to frauds such as applying for corporate credit cards, spending money on credit, ordering goods without authorisation and having funds withdrawn from corporate accounts.

These breaches in security have led to credit ratings being lowered as well as loss of customers and damage to corporate reputation.

We strongly urge you to review and strengthen your anti-fraud procedures before you are targeted. We would be happy to help and advise in this matter if you wish.