

HM Revenue and Customs' strategic approach for collecting more money from its customers

HMRC's new approach to yield more tax

The government has invested around £2 billion of additional funding to H M Revenue & Customs (HMRC) since 2010, and will continue to invest in staff and new technology, to ensure HMRC has the resources to further tackle tax avoidance, evasion and other forms of non-compliance.

The government states in a recent report that it is "consistently acting to tackle tax avoidance, evasion and other forms of non-compliance in the tax system."

A few interesting comments arise from this statement from HMRC.

'Tax avoidance' is not illegal. It is simply arranging your affairs in such a way as to minimise your tax liabilities e.g. trading as a limited company rather than as a sole trader. A recent report by HMRC stated that tax avoidance "involves bending the rules of the tax system to gain a tax advantage".

It is for the courts to determine if the law has been broken, not HMRC. HMRC often publish Guides to the law. These give HMRC' view and not infrequently the courts have ruled that they are incorrect. HMRC are losing lots of tax case in tribunals. Accountants and tax advisors believe that this is because HMRC are being too aggressive in trying to collecting extra tax and penalties when they have failed to understand the underlying law.

Lord Clyde in *Ayrshire Pullman v CIR (1929)* famously stated that "No man in this country is under the smallest obligation, moral or other, so as to arrange his legal relations to his business or to his property as to enable the

Inland Revenue to put the largest possible shovel into his stores. The Inland Revenue is not slow – and quite rightly – to take every advantage which is open to it under the taxing statutes for the purpose of depleting the taxpayer's pocket. And the taxpayer is, in like manner, entitled to be astute to prevent, so far as he honestly can, the depletion of his means by the Inland Revenue."

'Non-compliance in the tax system' may simply mean that you have filed a Tax Return, PAYE submission or VAT return late or made the tax payments late.

By the way, tax evasion (not tax avoidance) is always illegal. It is when individuals or businesses deliberately do not declare or account for the tax that they owe.

Small businesses & individuals are easy targets

HMRC is working hard to collect more revenue than ever before. Last year, it generated £28.9bn from HMRC enquiries which is expected to increase to over £30bn in 2018-19. This means that the chances of being selected for an enquiry are increasing.

Small businesses are easy targets. Small businesses represent more than 95% of businesses in the UK. Individual taxpayers are also easy targets for penalties. They are typically scared of HMRC and therefore accept demands for extra tax and penalties without too much challenge. It is a bit like taking candy from a baby.

See HMRC's thoughts on the 'Value of the Tax Gap' overleaf.

Value of the 'Tax Gap'



Source: Measuring Tax Gaps 2018, HMRC, June 2018

In the chart above small businesses & charging penalties for perceived carelessness behaviour are the largest single elements of the tax gap. If you make an innocent mistake on a VAT, PAYE, Corporation Tax or Income Tax Return does that mean that you have been careless?

As a result of HMRC's actions and tailored approach to maximising compliance, more tax is being collected. HMRC often tries to increase their tax take by imposing penalties. Having an accountant on your side to fight these instances of aggressive Tax Inspectors should save your hard earned money.

New teams and caseworkers at HMRC

Online shopping is commonplace, and online marketplaces make it easier than ever for people to buy and sell goods. The government has extended HMRC's access to third-party data which helps identify those seeking to hide how much they owe. This includes PayPal and eBay traders' accounts.

HMRC now has more resources and the right tools to tackle the hidden economy.

For example, the government has invested in:

- 250 extra hidden economy caseworkers to tackle unregistered businesses
- new geographic risking technology, analysts and caseworkers
- compliance officers to deal with online traders trying to hide their tax liabilities

The Budget Statement of 2018 confirmed the commitment to ensure everyone, from individuals to the largest companies, pay their fair share. The government and HMRC will continue its mission to ensure everyone pays what they owe.

As an accountant, I'm finding through real-life scenarios that what HMRC deems as a 'fair share' does not always mean that you have broken any laws.

Many of the facts and quotations in this article have been extracted directly from 'HMRC's Tackling tax avoidance, evasion, and other forms of non-compliance' that was published in March 2019.

Our advice is to consider taking out 'HMRC Fee Protection Insurance' with us. More details can be found on our [website](#). If you are investigated, or subject to action by H M Revenue & Customs, then we will take up the case for you. Our charges are paid through the Fee Protection policy.