

Inland Revenue Enquiries - a Survival Guide

Anyone who has undergone a tax enquiry will know what a harrowing experience it can be. Typical Inland Revenue enquiries can last months, if not years, and delve into the most private areas of an individual's financial affairs and lifestyle. This guide is intended to help those selected to ensure that their enquiry is conducted fairly, settled within a reasonable timeframe and for the lowest possible settlement figure.

Riley & CO

© Riley & Co 2003

Introduction

Anyone who has undergone a tax enquiry will know what a harrowing experience it can be. A typical Inland Revenue full enquiry can last months, if not years, and can delve into the most private areas of an individual's financial affairs and lifestyle.



Anyone can be selected at random or because of some specific factor or information held. The introduction of Self Assessment, together with advances in computer technology which facilitates much more sophisticated selection procedures, has added even more focus. It is the intention of the Inland

Revenue to enquire more effectively in the future. Indeed, it is being reorganised to meet a new directive aimed at maximising collections, with the introduction of specialist local investigators, *Special Compliance Office* to deal with major enquiries and inspectors are encouraged to recoup underpaid tax and to impose penalties wherever relevant. The whole process can become painfully expensive, traumatic and very time consuming.

The purpose of this *Survival Guide* is to help anyone under enquiry (or threat of enquiry) to adopt the right strategies for minimising cost and disruption. It does not pretend to be a textbook study but does aim to provide clear, friendly guidance to the layman under stress.

I am aware of both the techniques and procedures that are used throughout an enquiry; from the initial records review to the conclusion of the enquiry. However, perhaps more importantly, I am also aware of the pressures an inspector operates under and how these can affect the conduct of an enquiry.

Riley & Co specialises in handling enquiries for clients and non-clients and on behalf of other accountants.

Contact me if you are experiencing difficulties with any of the revenue agencies. An initial consultation is free of charge and in a face-to-face interview we would be able to personalise guidance to your specific circumstances.

Simon Walton ACA

This is one of a number of Survival Guides published by Riley & Co on tax, accounting and financial management for small and medium sized businesses. For details of other guides, or to be included on our mailing list, simply phone us on 01422 341019 or use the FaxBack form at the end of this document. Please also view our website at www.riley&co.co.uk

CONTENTS

Enquiries under Self Assessment

The increased risk - Self Assessment and integrated databases

How do they select their targets for enquiry?

Who is most at risk?

Is there more than one type of enquiry?

How serious can things become?

How far back can they go in an enquiry?

Can Inland Revenue enquiries trigger VAT or NI investigations?

How can I reduce the risk of an aspect enquiry becoming something more serious?

The importance of record keeping

Do not allow yourself to be led down the garden path!

What can affect the size of penalties?

How can I ensure that the most favourable settlement is achieved?

Does it make sense to protract the enquiry?

What does it cost?

Know your rights

Being in control

Appendix - Code of Practice - *"Enquiries Into Tax Returns by Local Tax Offices"*

Enquiries under Self Assessment

Enquiries, formerly known as investigations, have been undertaken for very many years. In many ways the underlying basic techniques employed during an enquiry have not altered over the years. However the move to Self Assessment marked the start of a much more formal set of procedures being applied. Whilst this has undoubtedly given the inspector more "powers" to obtain information it has also placed greater responsibility on him to act within both the legislation and internal guidelines, which can often be far more restrictive.

The process continues to evolve, for example the Human Rights Act is now impacting upon the penalties regime. At the moment the exact impact is not known but it is clear that the Inland Revenue perceive that it will have a real impact.

At face value the inspector holds all the cards however in reality he does not necessarily hold a winning hand. Inspectors are well known for making statements such as "I can do this" or "there is case law to support my position". Whilst strictly they may be correct, it is often the case that in reality the bark is worse than the bite and they have no intention of following through on any threat that they may make.

In many ways an enquiry can be likened to a game of poker. As in the card game the most important skill is being able to recognise what is a bluff and what is not. All too often people accept what an inspector says or provide information that they are not obliged to do so.

The increased risk - Self Assessment and integrated databases

Enquiries are nothing new. With self assessment for individuals and companies now firmly established the perception is that increased resources are now available for enquiry work. Such work will target at risk businesses more scientifically, using feedback from the data that is now being collected through self assessment forms.

Although information has always been available to the inspectors (through sets of accounts etc.) it was not as accessible to computer analysis as in the new environment. Where time consuming manual cross-referencing was necessary in the past, huge integrated databases and sophisticated data mining techniques will enable quick comparisons between similar *types* of enterprise. Patterns of typical expenses, motor costs, revenues, profits etc. as a percentage of turnover for each type of organisation will emerge and these will enable inspectors to perform exception analyses, quickly identifying potential target enterprises for enquiry. The success rates of different selection criteria will then be analysed and used to refine the process even further.

An enquiry can be likened to a game of poker. The skill is being able to recognise when the inspector is bluffing.

Investigators will target at risk businesses more scientifically, using feedback from the data that is now being collected through self assessment forms

Inland Revenue may have gained information about you based on anything ranging from a newspaper article, your lifestyle, perhaps associated with an income bracket outside your own, or even an anonymous tip off

Self Assessment, computerisation and electronic lodgement of returns can be expected to have further implications as the requirement for clerical staff becomes significantly reduced. Whilst some will be lost through natural wastage, others are being re-trained to perform enquiry work.

How do they select their targets for enquiry?

The tax authorities apply some (not many) purely random selections of people chosen before they ever issue the tax returns. You are simply informed that your tax return is under enquiry. There is no indication whether yours is a random selection, whether yours is an 'at risk' business or whether you have been selected because you are employing the services of an at risk accountant. The Inland Revenue may have gained information about you based on anything ranging from a newspaper article, your lifestyle (perhaps associated with an income bracket outside your own) or even an anonymous tip off.

A recent development in case selection is the creation of specialist risk and analysis teams whose sole job is to identify and "package" cases for local inspectors. Consequences of the creation of these new teams are; the removal of local knowledge from case selection and a reliance on computer identified "risks". Unfortunately the removal of local inspectors discretion when selecting cases effectively means there is little that can be done to minimise the chance of an enquiry being opened at the point the return is submitted.

Who is most at risk?

Businesses seriously at risk obviously include those handling cash. Less obviously, we can expect poor accounting practice to be more readily identified in future. It does not take much imagination to see how an inspector might select clients - businesses and individuals might stand out due to poor quality of information supplied with their tax returns.

Is there more than one type of enquiry?

There are two types:

First, an *Aspect Enquiry*, which should be restricted to one or two specific entries on the tax return. These can often be resolved fairly quickly. However they should not be treated lightly as they can result in significant final settlements or even turn into a "full enquiry".

The second is a *Full Enquiry*. This involves a review of all the business records when all accounts entries can be considered. Furthermore if the inspector identifies any problems during his review of the business records he will look to extend his review into the "private side", i.e. private bank/savings accounts, household spending etc.

How serious can things become?

For most people, the exercise is a salutary one and it can be a costly one.

Even a "straightforward" enquiry that results in relatively small additions can be a time consuming and distressing experience.

If the misdemeanour is very serious, then the case will be referred from the local special investigation team to the Special Compliance Office and in such circumstances the client is at risk of imprisonment (although it is always possible for local investigators to pursue matters through the criminal courts, they usually opt for a penalty).

It should be pointed out that the Revenue is much keener now on imprisonment and making examples of people. We receive a surprising number of press releases regarding imprisonment, mostly involving PAYE fraud. The other area where imprisonment features highly is in wilfully not operating the Construction Industry's tax deduction scheme correctly.

How far back can they go in an enquiry?

The tax year ends in April and your tax return for that year is due by the following 31st January. The tax office has another 12 months in which to begin enquiries into that tax return, after which a line is usually drawn.

Should a 'discovery' be made, the inspector can then go back for a maximum of 20 years, however, unless the offence is considered to be very serious most inspectors will only seek to go back for a maximum of 6 years, and possibly less.

Reopening earlier years is always a contentious issue and should be contested if at all possible. This can materially affect the final settlement figure, both in terms of additional duties and interest charged. (It should be pointed out that the interest charged almost invariably exceeds any penalty that is sought at the conclusion of an enquiry!)

Should a 'discovery' be made, the inspector can then go back 6 years where no negligence or fraud is involved, or 20 years where fraudulent and/or negligent conduct is established.

Anyone who has anything significantly wrong with their affairs, as discovered by any one of the agencies, should expect the other agencies to be alerted where relevant

Can an Inland Revenue enquiry trigger VAT or NI investigations?

Inland Revenue, the Contributions Agency and Customs & Excise used to be highly autonomous but, since the merger of Inland Revenue and Contributions they are now expected and encouraged to share information. This means that anyone who has anything significantly wrong with their affairs, as discovered by any one of the agencies, should expect the other agencies to be alerted where relevant.

Clearly, the best approach is to pre-empt such a move by volunteering the information direct, whereby the potential penalties should be minimised.

How can I reduce the risk of an aspect enquiry becoming something more serious?

In most instances a return selected for an aspect enquiry will have been considered for a full enquiry. As such it is unlikely to be converted to a full enquiry unless there are significant problems with the handling of the aspect enquiry, i.e. there are delays, correspondence is not dealt with or very serious problems emerge from the aspect under review.

Therefore to keep an enquiry restricted to an aspect it is important to cooperate fully and respond promptly. Do not give the inspector the opportunity convert an aspect enquiry into a full enquiry!

The importance of record keeping

Prevention is always better than the cure. Ensure that your records are of a suitable standard (now a legal requirement). Under Self Assessment, the tax authorities have produced guidelines which are particularly helpful (see Appendix I). Not only is this a requirement, but good records are your best line of defence in the event of a possible enquiry. This is particularly true for a cash business. As an added incentive, failure to keep suitable records can result in a fine of up to £3,000 (this is discretionary and a level of £3,000 would normally apply only in a case of deliberate destruction or flagrantly negligent conduct).

The split between private and business usage of vehicles for an unincorporated business is an obvious example where records are necessary to substantiate the split of running costs. Simply guessing the allocation of business to private costs could breach the regulations.

For the self employed, the tax office can request the relevant business records to support a tax return. In the past it was possible to delay supplying records until the authorities could identify a clear reason for requesting them. This should have prevented the inspectors from

Our advice would be to send only those records which are pertinent to the investigation.

going on 'fishing expeditions', looking for inconsistencies. Today the tax office has every right to demand such records without specifying whether this is just a random selection or because they have reason to believe something is wrong.

Our advice would be to send only those records which are pertinent to the enquiry. For example, private bank accounts should not be volunteered unless it can be demonstrated that they are relevant to the business account. (Recent internal Inland Revenue instructions advise inspectors not to seek private accounts as a matter of course, yet many inspectors still request this information without demonstrating any link to the business records.)

For this reason, we would recommend our clients to keep their private and business accounts as separate as possible.

If interest has been earned on a private account, then this bank account becomes relevant to the tax returns. In the absence of information to the contrary it should be sufficient, however, to supply only the certificate of interest earned (supplied by the bank at the year end).

Inspectors are always interested in deposits to any accounts, both business and private. It should be possible to match deposits into business accounts to the business records, however personal experience shows that this not always the case!

However deposits into private accounts can cause real problems. It is important to remember that the inspector treats all deposits into any account as business income unless there is evidence that it came from a non-business source. It is not unusual for queries on deposits to be raised 3 years after the deposit was made, when it can be extremely difficult to recall an individual transaction, let alone provide evidence in support! It is therefore vital to retain evidence to show that a deposit came from a non-business source. This would include items such as insurance recoveries, private loans or gambling wins.

Do not allow yourself to be led down the garden path

You may have a totally clear conscience - you pay your taxes - you keep good books and records and you are unaware of any problems. The inspector might be in possession of malicious information from, say, a disgruntled employee. Nevertheless, you cannot expect to get off scot free simply because *you* know that the inspector cannot have any real proof.

Unlike a court of law, the onus is on you to prove your innocence

The onus of proof is on you (the taxpayer) - all the inspector has to do is demonstrate that you are guilty on the balance of probabilities. Unlike a court of law, you may have to prove your innocence - in the

The inspector may have invested an inordinate amount of time and effort into studying your records, searching for items to put you on the spot.

face of circumstantial evidence and apparent inconsistencies. In this situation, the inspector will be highly trained and skilled at leading you into making contradictory statements or inadvertent admissions.

His cause will be greatly assisted if he can find an error in your tax return or accounts. This may be seized upon and used to demonstrate that you are 'the sort of person who makes incorrect returns'. He may have invested an inordinate amount of time and effort into studying your records, searching for items to put you on the spot. Beware of excuses which would show, for example, that you were paying in cash to assist a friend. In the eyes of the Revenue, helping someone else to evade tax makes you equally culpable.

It is also important to appreciate when to take the initiative from the inspector. Initially the onus is on the inspector to show that the return/accounts are incorrect and that, for whatever reason, profits have been understated. However if the inspector succeeds in doing this it is important to take the initiative and to prepare a response for the Inspector.

The worst thing that can be done is to ignore the inspectors concerns and to force him to "prove" his argument. Both as an inspector and now working within the accountancy profession I have seen numerous cases where the taxpayer has refused to accept there is a problem despite overwhelming evidence to the contrary. Invariably these cases become protracted and acrimonious. Often at the end of the day there is no room for negotiation consequently this results in a final settlement figure and professional fees that are substantially in excess of what could have been achieved if a more realistic view could have been taken at an early stage.

What can affect the size of penalties?

Quite simply, penalties are mitigable according to:

- q Disclosure
- q How co-operative you may have been
- q Size and gravity of the misdemeanour

Never guess in an injudicious attempt to help the inspector. Guesses may be recorded as fact and used later.

The worst possible scenario is having information dragged out piecemeal

A co-operative, businesslike, properly researched and prepared response is by far the most effective strategy.

How can I ensure that the most favourable settlement is achieved?

The golden rule is never to visit the tax office without professional representation. It is very easy to agree to something, the significance of which is not fully understood at the time, or to try to be helpful just to get the thing settled quickly.

The inspector may embark on a lifestyle exercise - how much do you spend on food? Do you smoke? How do you spend the weekends? Often questions may be asked to which an accurate answer is not readily to hand. Never guess in an injudicious attempt to help the inspector. It is perfectly reasonable to offer to come back with details later. Guesses risk being recorded as fact and could be used later.

It is also easy, when asked outright, to exaggerate. The classic example is the driving instructor whose accounts show private usage of his vehicle at, say, 5%. It is a simple task for the inspector to extrapolate from *total* mileage (which he may verify from MOT records) the number of miles travelled in business use. This in turn gives a good indication of total *revenue* that the driving instructor may have earned over the period. All the more reason, therefore, to do the necessary homework before visiting the tax office, to be able to admit to the lesser evil rather than being embarrassed and blustering on the spot.

This again underlines the need for professional representation. The odd small misdemeanour unearthed in a face-to-face interview can easily lead the inspector into assuming that this is just the tip of the iceberg. Things can quickly escalate from unguarded, unprepared conversations.

Never gamble on the inspectors not finding out about questionable items. Conduct your tax affairs from the premise that they will unearth everything and have proper explanations for everything. The worst possible scenario is having information dragged out piecemeal. Giving the impression that you are trying to conceal information is an open invitation to dig further and leaves you open to large penalties and interest.

Does it make sense to protract the enquiry?

No. Aside from the stress, your case can only be weakened by seeking to drag things out excessively. Furthermore it is far easier to "negotiate" a settlement when the enquiry has been conducted in a co-operative and business like manner.

Should such delays occur, our recommendation is not to supply records until the inspector is ready to look at them

Delays can occur due to administrative problems at the tax office but they do want to deal with enquiries as quickly as possible. Should such delays occur, our recommendation is not to supply records until the inspector is ready to look at them. Agree with him when he wants to examine them and allow a reasonable amount of time for examination. It is not in your interest for your records to be left lying around at the tax office for dipping in and out over a period of time. Reduce the opportunity for fishing expeditions.

What does it cost?

Excluding the payment of previously undeclared tax liability and possible penalties, the exercise can be horrendously expensive in terms of time - that most precious commodity for a business person not to mention the costs incurred in securing professional representation. Defending a *serious* investigation can cost many thousands of pounds. It is possible to insure against the such fees and Riley & Co offer such protection through Abbey Tax in a scheme endorsed by the ICAEW.

Know your rights - Access to Government Information

The first step in ensuring that you are dealt with properly is to know your rights. In the government's move towards more 'open government' a '*Code of Practice on Access to Government Information*' was introduced in April 1994. An Inland Revenue leaflet '*Open Government*' explains:

- | **Why the code was introduced**
- | **What it does**
- | **What information they make available**
- | **What other information you can obtain on request**
- | **How to request information**
- | **How quickly they will respond**
- | **How to complain if you are not completely satisfied**

Copies are available from your local library, Citizens' Advice Bureau or from Riley & Co

Know your rights - Enquiries into tax returns by local Tax Offices

A second publication (Code of Practice 11) is directly relevant. It describes how an enquiry is conducted, discusses professional representation and your rights and obligations in providing information. It also describes what happens if something is found to be wrong, the process for appeal hearings and payment of interest, surcharge and penalties.

In our appendix, we provide a precis of the document, which you should find useful.

A useful starting point is to understand the Codes of Practice relating to 'Open Government' and to 'Enquiries into Tax Returns by Local Tax Offices'.

Being in control

*Once the inspector has
gained the initiative
things can quickly spiral
out of control*

From what has already been said it should be clear that the secret is to be in control of the situation and to stay there. Once the inspector has gained the initiative things can quickly spiral out of control.

You really need someone with a high level of skill in such investigations to be able to analyse the figures, to work through them recognising and extracting relevant information in anticipation of queries. A third party can act as an essential buffer between you and the inspectors, can prevent emotion clouding the proceedings and can apply lessons and precedents from other enquiries.

Time to call Riley & Co!



Time to call Riley & Co! 01422 341019

or email simon@rileyandco.co.uk

Appendix

Code of Practice - *"Enquiries Into Tax Returns by Local Tax Offices"*

The following notes are taken from the Inland Revenue booklet 'Code of Practice 11). Copies of the complete publication are available from Inland Revenue, your local library, Citizens' Advice Bureau or from Riley & Co.

How an enquiry is conducted

Starting enquiries

- I We will tell you in writing that we intend to start enquiries.
- I We will tell you what your rights and responsibilities are.
- I We will, at the same time, try to tell you the information we require. Exceptionally, we may not be able to do this, but we will always explain why and say when we expect to be able to do so.
- I We normally have 12 months from the filing date for your return in which to tell you that we intend to start enquiries. We may have longer if you send in your return late. We will always have at least 12 months to enquire into any amendment that you make to your return.
- I At the end of that period, if we have not begun enquiries, your return will normally become final. We can make an assessment after that period only if we discover an error which we could not reasonably have been expected to be aware of from the information provided in or with your return. In that case, we can make an assessment at any time up to 31 January five years after the end of the tax year. If we discover that your return was incorrect because of fraudulent or negligent conduct, we can make an assessment at any time up to 31 January twenty years after the end of the tax year.

Professional representation

- I You can choose to be professionally represented, for example, by an accountant. You may exercise that right at any time.
- I You may change or stop using a professional adviser at any time.
- I We will deal with any professional adviser you have appointed unless you ask us not to. If there is little progress in settling matters, we will tell you and may then deal with you direct (or with any other professional adviser you may then appoint).
- I You should make sure your professional adviser has all the facts. You will always be personally responsible for your own tax affairs and for the accuracy of all information supplied to us, even if you have a professional adviser.

Providing information

- I We will ask questions and explain what further information we need as clearly and simply as possible.
- I We may limit our enquiries to one or more specific aspects of your return. These may range from requests for clarification of particular entries, to detailed consideration of whether those entries have been treated correctly for tax purposes. They may involve a check of the records on which the particular entries were based.

- | We may decide to conduct an extensive examination which considers all aspects of your tax affairs. Enquiries of this type will typically involve an in depth review of the records on which your return was based including, if you are self-employed, your business records.
- | We will ask only for information which is relevant to the entries in your tax return.
- | If we ask to see the records on which your return was based you should be able to provide these quickly and easily, as they should already be in your or your professional adviser's possession. If we decide we need other information, we will explain our request fully.
- | We will take up as little of your time as possible by trying to ask early on in our enquiries for everything we need to know. We will try to avoid asking for information in a piecemeal way, but this is not always possible as one question may lead to another. It may help if you tell us about any special features of your personal financial affairs or your business which you think may be relevant to any questions we have asked.
- | We will give you a reasonable amount of time to provide any information we need. You should tell us if you think we have not given you enough time to provide information and say how much more time you need, and why. We will let you have more time if this seems reasonable. If we cannot agree, we will tell you why.
- | You should respond as promptly as you can when we ask for information. This will help to keep down your time and costs, and ours.
- | You should tell us straightaway if you have difficulty obtaining the information we have asked for and we will discuss with you how you might obtain it. You should also tell us if you think it is not relevant to our enquiries. We will consider your reasons carefully and if we think we still need the information we will tell you why.
- | If you do not provide the information we have asked for and we have to use our statutory powers to obtain it from you we will
 - explain our statutory powers to you
 - advise you of any penalties that might arise if you do not comply and
 - tell you about your rights of appeal to independent Appeal Commissioners.
- | If you are in business you can ask us to examine your records at your business premises. We will do so if possible. Sometimes we may wish to suggest this ourselves. This will save you sending them to us and can often be more convenient for everyone.

- | We will always try to return your records as soon as possible. If you need them in the meantime, you may ask for the return of any records which we hold. You should tell us what you need, and when you expect to be able to return them. We will then
 - send them to you if we can. You should take care of these records so that you are able to return them to us complete and undamaged; or
 - if we need to keep them, we will give you copies. We will do this free of charge, and within seven days of receiving your request if possible.

- | You should not let our enquiries into one year's return delay submission of a return for any other year. You may be unable to provide final figures because you think these might be affected in some way by the enquiries which are under way. If so, include your best estimates in the return and indicate which figures may be affected by the outcome of the existing enquiries.

- | The information you provide should be correct to the best of your knowledge. If you provide information you know to be false, you could be liable to prosecution.

- | You have the right to ask us why we are continuing our enquiries, if you believe that you have provided all the information and explanations necessary to check your return and that we have had adequate time to consider the information and explanations. We will reconsider the matter to see whether we can agree or explain what further information we need for checking your return.

- | If you think we have no grounds for continuing our enquiry, you may ask the Appeal Commissioners to consider whether the enquiry should be closed. For example, you may believe that you have provided all the information reasonably required to determine the accuracy or completeness of the return, or that the enquiry is being prolonged unnecessarily by us.

Meetings

- | We may ask to meet you to discuss those aspects of your financial affairs of which only you have first hand knowledge.

- | You can ask your professional adviser, if you have one, to attend any meeting we have with you.

- | You are not obliged to come to any meeting, but we will expect you to provide promptly any information we consider essential to our enquiries. Meetings allow you to clarify and explain any points you think we may not have understood, and allow you to ask questions as well. If we consider that correspondence will not be an adequate substitute for a meeting, we will make this clear to you.

- I You should tell us if it is difficult for you to come to our offices. We may be able to meet you at a different location.
- I You should ensure the answers you give us at meetings are correct. If you are not sure about an answer you should say so. Similarly, if afterwards you realise something you said at a meeting may have been wrong, you should tell us straightaway.
- I You and your professional adviser should bring any documents which you think may help you answer questions or support points you might wish to raise about your return, or your business for the period under enquiry.
- I We will make a written record of any meeting we have with you and you can ask for a copy. We may ask you to sign a copy of our notes to show that they record the substance of what was said. You have the right to comment on these notes and to tell us about anything with which you do not agree. You do not have to sign them or comment on them, but a signed record could be useful if we cannot reach agreement and have to ask the Appeal Commissioners to resolve matters.

If we find nothing wrong

- I If we find nothing wrong, we will tell you and let you know that our enquiries have finished.

If we find something wrong

Paying tax during our enquiries

- I We will ask you to make a payment on account towards any additional tax we think may be due from you, but until your self assessment is amended, you do not have to pay anything additional on account if you do not think you should. However, making a payment on account will help reduce any interest charges if, at the end of our enquiries, we find you do owe additional tax. If it turns out that you have paid too much, we will repay with interest any tax you have overpaid.
- I We may make a provisional amendment to your self assessment before the end of our enquiries. We may do this if we think that additional tax is due and that it might not be paid if we did not act promptly. We may also make assessments for earlier years. You have a right to appeal against any such assessments or amendments and may ask to postpone payment of any of the tax. If we cannot reach agreement, you may ask the Appeal Commissioners to decide how much tax you should pay at this stage of our enquiries.

Revised figures

- I We will try to agree with you any changes needed to your own figures.
- I We will only suggest changes we consider to be reasonable in the light of all the information we have.

- | When our enquiries are completed, we will tell you in writing and set out any adjustments we think are necessary.
- | We will always explain how we arrived at the figures we put forward. If you do not understand them you should let us know.
- | We will invite you, if you agree with our figures, to amend your self assessment. You will have 30 days to do so. If you do not do so within 30 days, we will amend your self assessment.
- | We may make an assessment for earlier years if necessary.

Appeal hearings

- | You can appeal to independent Appeal Commissioners against any amendment we make to your self assessment or against any other assessment we make that you do not think is correct. You will have 30 days to do so.
- | You can find out how to make an appeal by reading the notes with the amendment or assessment, or by asking us to explain the process to you. Or you can ask us for our leaflet IR37 'Appeals against tax' which tells you more about appeals and the Commissioners.
- | We will try, wherever possible, to reach agreement with you about your tax without a formal hearing of any appeal.
- | If agreement cannot be reached, you have the right to ask for any appeals to be heard by the Commissioners. We will arrange for this to be done or, if you prefer, you can contact the Clerk to the Commissioners yourself. We will give you the Clerk's address if you ask for it.
- | If the appeal hearing has been arranged at your request and we think we will need more time to conclude our enquiries, we will ask the Commissioners to adjourn the hearing to a later date.
- | We may ask the Commissioners to hear your appeal if there is little or no progress being made towards settling it by agreement.
- | If the appeal hearing has been arranged at our request and you need more time to provide information, you may ask the Commissioners to adjourn the hearing to a later date. It will be up to them to decide whether to do so.
- | We will tell you if we intend to ask the Commissioners to settle your appeal. We will explain the figures we propose to put forward at least 14 days before the date fixed for the hearing, unless there are exceptional circumstances. The figures we put forward may differ from those we suggested to you during our negotiations.
- | You have the right to put your case to the Commissioners and to tell them the figures you believe to be correct.
- | You can choose whether or not to have your case presented for you by a professional representative or by any other person, providing the Commissioners do not object.

- | After listening to both parties and considering all the evidence, the Commissioners will decide whether the amendment or assessment should remain unchanged, be increased or be reduced.
- | You may ask us, or, if you prefer, the Clerk to the Commissioners if there is anything about the appeal hearing procedure which you do not understand or feel you need to know.

Interest, surcharge and penalties

- | Interest will be payable whenever amounts due are paid late. A surcharge (a fixed percentage of any tax unpaid at a specific date), or penalties, or both may also be due but surcharge and penalties cannot both be imposed on the same tax.
- | We can seek penalties for incorrect returns only if an error was due to negligent or fraudulent conduct.
- | When calculating any penalty, we will take into account the extent to which you disclosed voluntarily anything that was wrong, your help in concluding our enquiries and the seriousness of your errors or omissions. The way we work out penalties is set out in our leaflet IR73 'Inland Revenue enquiries: how settlements are negotiated'.
- | You should tell us about any matters you think are relevant when we are working out the penalty to be charged.
- | We will seek an agreed settlement on the amounts of tax, interest, surcharge and penalties due from you. If we cannot reach agreement, we may determine formally the penalty we consider appropriate.
- | You have the right to appeal against any penalty determination, and can ask for the appeal to be heard by the Appeal Commissioners.
- | We will also, where necessary, determine the amount of surcharge that may be due. You have the right to appeal against surcharge on the grounds that you had a reasonable excuse for not paying the tax on time.
- | If you do not understand how we have calculated interest, surcharge or penalties, or why they are due, you should ask us, or your professional adviser, or read our leaflet IR73.

At the end of our enquiries

- | When our enquiries have shown something is wrong we will
 - explain what it is
 - tell you how to get things right for the future
 - make suggestions about improvements to your business or personal records if they do not meet legal requirements or we consider they are inadequate. If you are professionally represented, we may recommend that you seek advice from your professional adviser.

- | If you are still unsure about the records you need to keep in future, or the amount of detail required, ask your professional adviser or us to help you. You may also ask for our leaflets SA/BK3 'Self Assessment - A guide to keeping records for the self employed' and SA/BK4 'Self Assessment - A general guide to keeping records'.
- | If our enquiries show that your return was incorrect we may ask you to sign a Certificate of Disclosure, confirming that you have now declared all your taxable income and gains. We will not do so if our enquiries have shown your return was correct or overstated your taxable income or gains. We will take a very serious view if you sign a Certificate of Disclosure you know to be false, so you should consider it carefully before signing.
- | If your return was incorrect because it overstated your taxable income or gains, we will repay any tax you have overpaid plus appropriate interest.