

Christopher Lunn & Company



HMRC ENQUIRIES FUND

PROFESSIONAL FEES COVER

Are you worried about being the subject
of an HMRC Enquiry?

What would it cost in professional fees to
have someone help you through it?

Would having a type of enquiry cover
against these professional fees give you
some peace of mind?

What would this 'peace of mind' cost?

A Few Facts about HM Revenue & Customs Enquiries:

The main areas of investigation launched by HM Revenue & Customs (HMRC) are:

- VAT.
- Self Assessment.
- Corporation Tax.
- Employer Review. (Self Employment against PAYE - otherwise known as Status Enquiries).

Due to the nature of the tax system in the UK, HMRC operates a 'process now - check later' system of governance. This means that you (The Tax Payer) submit your figures, whether via an agent or on your own and declare and pay the amount of tax you believe to be correct. HMRC then reserve the right to look into that submission and question the entries contained within.

HMRC operates a risk assessment on each submission looking for any indication that things might not be right. These benchmarks that HMRC use to identify what is right and what is worthy of a second look are difficult to accurately predict as they undoubtedly change and adapt over time. Examples of the most common indicators that HMRC look for are:

- On VAT Returns it could be a refund being claimed when you would normally expect to be paying some tax.
- On Self Assessment Tax Returns it could be a higher than usual expense category or a dramatic reduction in overall turnover.

Anything that looks out of place could lead to your submission being selected for a closer look. Once that 'look' becomes official HMRC will open an Enquiry into your Return to ascertain as to its accuracy.

1. According to a recent survey carried out by the UK's Leading Enquiry Insurance Provider :

- The average cost in professional fees for a Self Assessment Enquiry £2,500 and for Corporation Tax Enquiries up to £4,600.
- In 76% of the settlements made between HMRC and the Tax Payer, the professional fees have been higher than the amount of tax that was paid.

Whether we like it or not being subjected to an HMRC Enquiry is an unfortunate by product of working for yourself and submitting your own returns. One could go so far as to say they are almost guaranteed if you spend the majority of your working life self employed. Current HMRC targets aim to enquire into between 5% - 10% of all submissions per year. If we are looking for averages, and at the current rate, you do run the chance of being subjected to some sort of investigation once every seven years.

So, how do people protect themselves from the cost of an HMRC Enquiry? And more importantly how much does this cost in the open market?

2. A recent Google search provided the following information:

- The main suppliers of 'Professional Expenses Insurance' (Enquiry Insurance) will charge an average of £190 per annum for a sole trader and up to £231 for a limited company.
- Exclusions from the policy includes where estimated figures have been used (where a receipt has been lost but you know the amount) even though certain estimations are allowed by HMRC.
- Other exclusions include returns that have been submitted late, where you have made a mistake in the initial submission or when you have been involved in tax planning such as the Film Partnership scheme or other tax saving investments schemes.
- Any current premium you might pay does not cover any recently submitted returns. For the Annual Tax return HMRC have up to 12 months in which they can enquire into a return after submission, however, if you had submitted the actual return sometime last year and only just paid your first premium, you would only be covered for future work not anything submitted in the past. A fairly bitter pill to swallow if you have just paid £200 for cover only to be told you are not covered!

1. *Abbey Tax 2007.* 2. *Companies supplying quotes included: Tax Wise, Abbey Tax, Peninsula and QDOS.*

As the premium is quite expensive and the exclusions potentially restrictive in the number of claims, we started looking at the idea of offering a non commercial Christopher Lunn and Company fund, to which every client paid a much reduced premium.

This would then cover them for historic work as well as future work (as long as it was done by us), it would cover any enquiry irrespective of the amount estimated or any initial mistakes and would result in none of our fees having to be paid by you in the course of your enquiry.

What does this mean for you as the client?

Christopher Lunn and Company would charge an annual premium of:

- £50 for a sole trader.
- £60 for a partnership.
- £60 for a limited company.

If you are a sole trader with a limited company your total premium would be £110 and if you had a partnership and limited company this would increase to £120. Subsequent limited companies would be charged at £60 each per year unless it is non trading or dormant, in which case no charge will apply.

This is just under a third of the annual amount you would pay for a commercial insurance product and would cover you in most of the situations where a commercial product would not.

The cover would include:

- All enquiries including VAT, Self Assessment, Corporation Tax and Employer Review enquiries (Status Enquiries), including instances where you are a sub contractor and it is your contractor who is subject to the Employer Review.
- Historic returns as well as future returns as long as they were completed by us.
- All fees generated by this company in dealing with HMRC including meetings and all travel.
- Returns where estimated figures were used.
- Returns where tax planning is involved as long as the planning had been recommended or approved by us.

What the cover does not include:

- Any fees incurred by Solicitors / Barristers in taking your case to the High Court, Court of Appeal of European Courts without first agreeing the cover with us (very rare indeed!)
- Any returns submitted by a previous accountant or by you prior to becoming a client.

If you have any questions concerning this protection please contact the Enquiries Department:

(Tel) 01892 665 311

(Fax) 01892 655 428

And ask to speak to: Sophie, Jon, Trish, Charlotte or Lyndsey.

(E-mail)

Please prefix:

● **sophie** ● **jon** ● **trish** ● **Charlotte** ● **lyndseyb**

To: @clandco.com

(Address)

**Christopher Lunn & Company
The Pines, Boarshead, Crowborough, East Sussex TN6 3HD**

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FREQUENTLY ASKED QUESTIONS:

If I want to contribute to this fund, what do I have to do now?

Just pay the premium and that's it.

You have received a bill which is the premium to cover the entities under which you trade. As soon as you pay the premium you are covered for an entire tax year irrespective of when HMRC announce their intention to enquire.

If you do not wish to be covered please put the letter in the recycling so that in months to come it can be turned into loo roll or something equally useful.

If you have any questions regarding the cover please call the office and we will be happy to help.

Why have you charged me automatically for the premium rather than asking me first?

As this is not a commercial product we are keen to keep the premium down to as low a level as we can. If we were to employ people to administer it, call clients to check they are happy to join etc the costs would soar.

Can I opt out?

The premium is entirely voluntary and should you wish to opt out, we would invoice you at the normal rates should you incur a revenue inspection in that year.

Will the price change?

We have calculated, on the number of clients that we currently have we will be able to cover the cost of every single HMRC enquiry by asking each client to pay in to a communal fund. We will review the cost of running the enquiry department and see whether we have calculated the figure correctly or need to adjust the premium.

If the pot runs out and there are still bills being incurred, we as a company will pick up the tab and will not ask any client who is currently paying the premium to pay any bills concerning their enquiry work.

So where do I sign?

Even though this is not a regulated insurance product, this document forms the terms and conditions of this communal fund and we are obliged to offer cover for all Enquiry bills as long as that client has paid their annual premium and the other criteria set out above are met.

All you need to do is pay the annual premium and you are automatically in.

Can I opt back in?

Should you opt out of the scheme and then receive notification from HMRC that they wish to enquire into your return, you will not be covered for that work as you received notification prior to purchasing cover. If you opt out but change your mind you can pay the premium at any time and will immediately be covered for any future work.

If we believe that you had already received notification of an enquiry before paying the premium we reserve the right to refuse the cover. The initial date of the enquiry is taken from the date on the official HMRC documentation and if your cover was in place before that date you can consider yourself covered from that moment on.

This is a mutually beneficial fund and so we are not in the business, like some insurers as to refusing to offer cover, but the fund will not work if people opt out and only pay the premium at the time of their enquiry.

Why are you doing this?

Tax enquiries can be a particularly stressful time, not helped by the knowledge by the tax payer of the impending professional fees when the enquiry is finished.

As a firm of Accountants we realise that enquiries are an integral part of what we do but we still have to charge for our work and this often causes difficulties for the tax payer if they are faced with a tax bill and a professional bill. Often very galling if the professional fees are larger than the tax bill!

If the tax payer knew that the only amounts being discussed are the tax amounts and the fees are covered we can often identify a settlement figure which once paid would end the enquiry.

Whether we like it or not tax law in the UK is full of grey areas. It is often better to accept a small liability to see the end of an enquiry as it is to continue to fight with all the stress that it involves. If the client has no concerns about professional fees and we had no concerns about being able to invoice and collect those fees, the enquiry itself can be dealt with in a significantly more efficient and advantageous manner.

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