

“My inner peace was destroyed, my privacy gone, by the time of the raid I had won 49 tournaments, after the raid I did not win another Singles tournament. The sinister threat and fear of the unknown ate up my soul and destroyed my self-confidence.”

**Keith Aitken** The words of tennis star Boris Becker recounting his traumatic experiences at the hands of Germany’s tax authorities; but would our own Inland Revenue Inspectors conduct themselves in such a teutonically ruthless manner? I am Keith Aitken and today I am with Ronnie Ludwig, a Partner in the Saffery Champness Private Wealth Group.

Ronnie, tell me that it could not happen here?

**Ronnie Ludwig** Well I am afraid that it could happen here, although very fortunately it does not happen very often in that manner, but certainly it can happen in very serious cases.

**Keith** Do the Inland Revenue have the same sort of powers to come into your home that they used against Boris Becker in Germany?

**Ronnie** Yes they do. The Inland Revenue are very much like the police in that they have got a statutory right of entry to your home and that goes as far as breaking down your front door.

**Keith** Is that the usual tactic then, do you usually arrive unannounced or do they phone you up and say that they would like to come and see you next Thursday?

**Ronnie** Fortunately most Inland Revenue Investigations are started off on a far more gentlemanly manner; it is only in very rare and extreme cases that they would resort to what is known as the ‘dawn-raid’ tactic’.

**Keith** What sort of circumstances would those be?

**Ronnie** Those would be circumstances where they have not received co-operation and where the offence is what they would regard as a heinous offence; that is one which involves perhaps a professional tax adviser and a connivance of a professional adviser, forgery, conspiracy, incomplete disclosure, false statements and acts of serious fraud.

**Keith** What is it that genuinely puts them on to you, I mean is it usually information or do they just pick people at random?

- Ronnie** It is both things really. Firstly, they are sort of looking at the official way that the Revenue acts. They would deal with things looking at business comparisons, if you are running a business the Inland Revenue will know what exactly what sort of gross profit percentage you ought to be making compared to every other business of your type up and down the country and if you are out with that expectation that in itself is enough for them to launch an investigation; but a lot of Inland Revenue investigations, perhaps more than 50% of them are as a result of informants and these could be former business associates, neighbours, family, jilted lovers, anonymous letters and so on.
- Keith** A lot of people I supposed would instinctively say, well look, that they have got limited resources, I am just a wee business, I only turnover £50 grand a year, they are never going to get round to bothering with me are they? Is that a wise way to think?
- Ronnie** It is not a wise way to think. I think that everybody needs to be aware that the Inland Revenue are out there and that they do cast their net very widely.
- Keith** What are they looking for? What are they typically looking for when they come into your premises?
- Ronnie** The most likely candidate for a Revenue investigation are cash businesses, those that perhaps that there are not very many cash transactions going through by credit card or by cheque, so cash businesses are very much a candidate and what they are looking for are, well it really covers a wide spectrum of things, but generally it would be expenditure, for example, which is not-allowable and that can be things like purchasing football tickets; they see expenses going through for travel, for entertaining at restaurants and so on and so forth, these would be much more typical areas where the Revenue would look.
- Keith** Let us say that they have turned up on my doorstep, what should I do?
- Ronnie** The first thing you should do is, one hopefully would, before you get to that stage, they would have written and said that they wish to launch an investigation into your affairs and they would ask you for certain information, so before it gets to the point where they turn up at your doorstep, it would not be unannounced unless it was literally a 'dawn-raid'.
- Keith** I am obliged to provide that information?
- Ronnie** You are obliged to provide that information under the Taxes Management Act; they have got a right to demand information from you or any other person who deals with you.
- Keith** Who should I have with me if they come in; should I have my accountant, should I have my lawyer or should I have a friend with a pickaxe handle – who should I have?

- Ronnie** Initially you should have your accountant there, because, if they are experienced in dealing with the Revenue in investigatory work, they will know exactly how to deal with them and of course the response at the very outset to the Inland Revenue, even to the very initial letter, is crucial in determining whether an inquiry is going to turn into an investigation or whether it can be killed off at that stage.
- Keith** How much hassle are they going to give me once they have arrived, how much hassle is it going to disrupt my life?
- Ronnie** It can be a very, very serious disruption to your life, because not only will these people actually speak to you, what they can do is they can speak to your customers, to your business associates, your family and your neighbours; all of this to gain a picture of your general lifestyle and how you are earning your living to support that lifestyle. It can be very far-reaching, it can be very embarrassing and very, very upsetting.
- Keith** Is it a good idea to invite them into your premises or should you try to keep them away from it?
- Ronnie** Practically I think that it is a bad idea to allow the Revenue to come to your premises; I think that in most cases it is much better to have a neutral ground, so I would suggest meeting at your accountant's premises or go the Inland Revenue offices themselves; I do not think that it is a very good idea to invite the Inland Revenue into your house.
- Keith** We have been talking here about what happens when they get to the raid; but let us talk about the preventative stuff. What can one do, what should one be doing to make sure that they do not come knocking at your door?
- Ronnie** What you have got to do is keep very good books and records. Make absolutely certain that all the transactions that are going through
- Keith** Keep those for how long Ronnie?
- Ronnie** Seven years and make sure that all transactions are properly logged and recorded. Make sure that you have got good quality financial advice, a good set of accountants representing you with a good reputation with the Revenue; that is very important.
- Keith** Are there firms of accountants who actually specialise in keeping investigations at bay or can the run-of-the-mill accountant that I pull out of the Yellow Pages do the job for me?

- Ronnie** I think at the simple end most firms of accountants would be able to handle the lower-end general enquiries. I think when things get a bit more serious, for example if Special Compliance Office of the Inland Revenue are involved, which is the upper end, that is where rather serious amounts is, such as six figure tax figures are being talked about; I think that once when one gets to that level you need specialist help possibly involving a solicitor as well.
- Keith** The folklore out there out says that if it gets to the stage where they are looking through your books they can always find something if they want to; is that the mindset or are they really looking for more serious offences?
- Ronnie** Oh no, that is the mindset. I mean the Revenue have got a fantastic record when it comes to their success rate in investigations and they actually quote that they are successful in 98% of all investigatory work that they start.
- Keith** Does success mean a prosecution or conviction?
- Ronnie** No, not at all. It simply means that tax recovered for the Exchequer and since 1997 they have never failed to recover less than £4 billion in unpaid taxes as a result of their investigatory work alone.
- Keith** Their instinct is to try to get the money rather than to prosecute, that is the key objective to get the money back short of a prosecution?
- Ronnie** Yes, they do not want to throw people in jail for tax evasion, so generally if people are sensible and co-operate during an investigation, then that will go well for them and also when it comes to looking at issues like penalties, because penalties are negotiable at the end of an investigation and these are based on the level of co-operation and disclosure that you have given to the Revenue.
- Keith** So now then Ronnie you have scared us all about what could happen to us, what are the key things which we need to do to minimise the risk to ourselves and our businesses?
- Ronnie** The key things to look for here are to make sure that you keep good books and records. Make sure that everything is recorded properly. Make sure that you have got an audit trail to show what all the expenditure is. Make sure that you have got a good accountant representing you and who is presenting your books and records to the Inland Revenue especially if you are in a cash business.
- Keith** That was Ronnie Ludwig from the Saffery Champness Private Wealth Group. Log on to the Saffery Champness website [www.saffery.com](http://www.saffery.com) for the next issue of Talkabout soon.