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HOW TO MASTER A TAX ENQUIRY OR INVESTIGATION

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tax insider
BUSINESS

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HMRC Enquiries and Investigations: A Practical Guide – First published May 2025.

About Salman Anwar

Salman Anwar is an ex-Inspector of Taxes, having worked at HM Revenue & Customs Large Business and Fraud Investigation Service directorates. He set up his tax practice (ADL TAX) in April 2024, having previously worked at BDO LLP (Associated Director) and Mazars LLP, as it was then, leading their respective Tax Dispute Resolution teams in the Midlands.

Salman has advised clients of all types on resolving tax disputes with HMRC in the most amicable and cost-effective manner. From assisting clients and colleagues with simple enquiry cases where value-add was required, helping clients make property disclosures, to high-value multi-million-pound disputes for large international corporations. Salman's specialism lies in understanding and applying the tax administration frame and HMRC's powers to achieve the best outcome for his cases. Salman has worked on a wide breadth of taxes (e.g. NWM, Customs, VAT (Kittel), application of DTA concessions) in the course of his 11-year career, in addition to the more common disputes practitioners usually deal with in direct taxes.

Salman has spoken on his specialist topic on radio shows, podcasts and at events and has written for various publications.

About this guide

Dealing with an HMRC enquiry or investigation can be a complex and time-consuming process. Many taxpayers and advisers find themselves unprepared when faced with an unexpected letter from HMRC, which can lead to unnecessary stress and financial risk.

This guide aims to provide an in-depth but easy to read understanding of HMRC enquiries, explaining how and why they occur, the different types of investigations, and what taxpayers can do to manage them effectively.

The guide is structured to help readers anticipate potential tax issues, understand their rights and responsibilities, and take proactive measures to ensure compliance while protecting their interests. By equipping yourself with the right knowledge, you can navigate the process efficiently and avoid common pitfalls that can lead to penalties and further scrutiny.

1 Introduction

1.1 Why understanding HMRC enquiries is crucial

Tax investigations are not limited to those who deliberately evade tax. Many honest taxpayers can find themselves subject to an HMRC enquiry due to administrative errors, misinterpretations of tax law, or inconsistencies in their tax returns. Understanding the triggers and processes of HMRC investigations is essential for individuals, businesses, and especially advisers.

Failure to handle an enquiry properly can result in significant financial liabilities, including additional tax assessments, penalties, and interest, as well as professional costs – in some cases seriously jeopardising the financial viability of a business.

In some cases, it can also lead to reputational damage or even criminal prosecution. Therefore, it is crucial to respond appropriately, ensure transparency, and, when necessary, seek expert advice to resolve the matter effectively.

1.2 Common misconceptions about HMRC investigations

There are several misconceptions about HMRC investigations that can lead taxpayers to either panic unnecessarily or underestimate the seriousness of an enquiry:

- “If I have done nothing wrong, I have nothing to worry about.” Even compliant taxpayers can be selected for random checks or questioned due to minor discrepancies.
- “HMRC needs strong evidence to investigate me.” An enquiry can be triggered by seemingly insignificant factors, such as an inconsistent tax return, third-party reports, or a sector-wide focus.
- “Once an enquiry starts, penalties are inevitable.” Properly managed, an enquiry can conclude without additional tax liability or penalties if adequate records and justifications are provided.
- “HMRC can only look at recent tax years.” While the standard timeframe for reviewing tax returns is governed by the statutory enquiry framework*, HMRC can extend this up to 20 years in cases of deliberate underreporting.

Understanding these misconceptions ensures that taxpayers approach an HMRC enquiry with the right mindset, prepared with facts rather than fear.

*It should be noted that there are specific provisions for each tax and duty levied in the UK. While there are similarities and cross read across many aspects of these provisions, there are also significant differences. For example, there is no statutory enquiry window for VAT or PAYE returns, but there is for self-assessment for income tax and corporation tax.

While this guide is predominantly written from a ‘direct taxes’ perspective (i.e., income and corporation tax), we try and highlight the differences where these arise for other taxes (such as VAT and PAYE).

2 An enquiry, investigation or a compliance check?

2.1 What is a tax investigation?

HMRC mainly refers to its investigative activities as compliance checks but other terms such as enquiry and investigation are also used. Broadly, a compliance check may be an enquiry, an investigation, a visit, an inspection, or an information request.

In short, a compliance check is any activity or action where HMRC is looking to check a person's tax position, future, past or present. See CH205100.

Example 1 – Types of compliance checks

S9A enquiry into Stephen's 2023/24 tax return.

Nudge letter to Ahmed informing him that HMRC has information that he has undeclared property income and inviting them to make a disclosure

Code of Practice 9 investigation into Julia's tax affairs alleging suspected tax fraud and inviting them to enter the Contractual Disclosure Facility.

In this section I break down what each term means, or more correctly, is *likely* to mean from the perspective of advisers or taxpayers – in order to understand how best to handle them.

Just like in practice, I use them interchangeably throughout this guide.

2.2 Enquiry or investigation?

An HMRC enquiry is a formally initiated process designed to check whether a taxpayer's returns and records are accurate. Typically, it begins with a notice of enquiry and involves examining books and records, financial statements, and other supporting documentation.

Enquiries may be conducted on a routine basis or may be triggered by irregularities spotted in submitted returns, broad sector-wide reviews, or external information sources.

Although people often use 'enquiry' and 'investigation' interchangeably, they can differ substantially in their breadth. A statutory enquiry usually operates under a specific legislative provision—such as Section 9A of the Taxes Management Act 1970 (TMA 1970, for individuals), S12AC TMA 1970 (for partnerships) or Paragraph 24 of Schedule 18 to the Finance Act 1998 (for companies) — and often focuses on clarifying particular points.

In contrast, an investigation can be far more extensive, potentially involving a deep dive into financial activities spanning multiple years, including years which HMRC does not have a right to open a statutory enquiry into. These may be conducted under Codes of Practice 8 or 9, more on these later, informally under HMRC's general administrative duties or formally using information powers.

In HMRC's terminology, both enquiries and investigations fall under the umbrella of compliance checks, as noted above, but it is important to determine whether the authority is using formal statutory powers to open a specific enquiry or carrying out a more general, wide-ranging and informal investigation.

Courts have upheld HMRC's right to conduct wide-ranging, less formal investigations in line with its duty to administer the tax system effectively.

Nevertheless, to compel taxpayers to produce information, HMRC must be prepared to show that it is acting under valid statutory enquiry powers or its general information-gathering powers.

Within the statutory enquiries framework HMRC may carry out a full or aspect enquiry. The distinction between these is not present in the law and it is more an approach from HMRC's compliance team to manage the level of scrutiny.

2.2.1 Full enquiries

A full enquiry is the most comprehensive type of HMRC enquiry and is usually initiated when HMRC wants to check all entries in a taxpayer's return. In these cases, HMRC will scrutinise all aspects of the taxpayer's financial affairs, including:

- all sources of income, including self-employment, investments, and property rentals;
- business accounts and financial records;
- deductions, allowances, and tax reliefs claimed; *and*
- banking transactions and financial statements.

Full enquiries are commonly triggered by discrepancies in tax returns, unexplained changes in income levels, or third-party reports suggesting undeclared income. They can be time-consuming, often lasting several months or even years, and require extensive cooperation from the taxpayer.

Example 2

ABC Ltd receives an enquiry notice notifying it that HMRC is opening an enquiry under paragraph 18 of Schedule 24 of FA1998 into its corporation tax return for the accounting period ended 31 December 2024. HMRC asks for access to all books and records for the period and also lists some specific queries and questions.

While full enquiries tend to be risk-driven, HMRC does use these for randomly selected cases to ascertain or identify where risks may lie in the general population of taxpayers.