

BUSINESS TAX

If HMRC Opens an Enquiry: What to Expect and How to Prepare

How HMRC checks work, what the letter means, how to respond, and how good records and early advice keep the stress and the cost down.

FOR: ALL BUSINESS OWNERS AND TAXPAYERS · ANY EXPERIENCE

Enquiries are more common than people think

HMRC checks tax returns and accounts for many reasons: a random selection, an apparent inconsistency between your figures and others', a pattern of claims that stands out from others in your sector, or information from a third party. Most enquiries are about something modest, such as an expense claim or an unexplained deposit. Being enquired into does not mean you have done anything wrong. It does mean you should take it seriously and respond properly.

The types of check

- **A letter asking for information** about a particular item, sometimes called a compliance check.
- **A formal enquiry** into a return, where HMRC can ask questions and for documents about anything on it.
- **An aspect enquiry**, limited to one part of a return, such as expenses or a property.
- **A full enquiry**, covering the whole return.
- **A visit**, announced or unannounced, for example to review records at a business.
- **A check on payroll or VAT**, often through an inspection of records.
- **Serious cases**, where HMRC suspects deliberate evasion, are dealt with under special procedures.

What to do when a letter arrives

1. **Do not ignore it, and do not panic.** There is always a deadline for response, usually stated in the letter.
2. **Send it to your accountant at once**, and authorise them to deal with HMRC for you, if they are not already authorised.
3. **Read exactly what is asked**, and by when.
4. **Do not write back in haste**, or hand over more than was asked, before taking advice.
5. **Gather the records** that relate to the question.
6. **Ask for more time** if you need it. HMRC will often agree if you ask in good time and give a reason.

Who this is for

- Anyone who has received an HMRC letter
- Business owners wanting to be ready
- Directors who claim large or unusual expenses

Key points

- Respond on time, and never ignore a letter.
- Pass it to your accountant at once.
- Answer what is asked, honestly and accurately.
- Records are your best defence.
- Tell us about mistakes. They are better disclosed.

How HMRC views errors

Penalties depend on the behaviour behind a mistake. In general, HMRC distinguishes between a genuine, careful mistake, a careless one, and a deliberate one, and the penalty and the period it can look back increase in that order. Telling HMRC about an error before they find it, and co-operating, reduces the penalty significantly. That is why it matters not to hide mistakes.

Time limits

In outline, HMRC has a limited period to open an enquiry into a return after it is filed. But if it believes tax has been underpaid, it can raise an assessment for earlier years: up to four years for ordinary error, six for carelessness and twenty for deliberate behaviour. These limits are why records have to be kept for several years, and why discovering an old mistake is worth correcting.

How to prepare in advance

- **Keep good records**, and keep them for the required time.
- **Be able to explain unusual items.** A note on a large or odd transaction is worth more than a memory a year later.
- **Keep business and personal money separate.**
- **Claim only what you can support.**
- **File accurately and on time.**
- **Consider enquiry insurance**, which in some cases covers professional fees for responding.

The enquiry itself

Expect a series of letters and, sometimes, a meeting. Your accountant will normally deal with the correspondence and prepare the answers. If HMRC concludes there is extra tax to pay, it will issue a closure notice, and you can agree or appeal. There are routes for settlement and for review by someone independent at HMRC, and, if needed, an appeal to a tribunal.

Keep perspective

Most enquiries end with no change or a small adjustment. Good preparation, honest answers and professional help make the process shorter and less costly.

Related guides

If this is useful, you may also want:

- [Maintaining records](#)
- [What you can claim](#)
- [Personal tax planning](#)

When a letter arrives

- Note the date and deadline
- Send it to your accountant today
- Authorise them with HMRC
- Gather the records asked for
- Ask for time if needed
- Do not reply alone

How King Street can help

0161 835 2080
client@mtmlp.co.uk

We deal with HMRC on your behalf: reading the letter, advising on the right response, preparing and checking information, negotiating, and, where needed, arranging an appeal. If you have a concern about an earlier return, we can advise on correcting it before HMRC finds it.

Manchester: 3rd Floor, 82 King Street, M2 4WQ · Wilmslow: Cresta House, 42 Water Lane, SK9 5AL