WHAT HMRC IS LIKELY TO ASK

The business

The inspector will know the trade (e.g. taxi driver, public house) but they do not know the particular facets of your business (e.g. for a pub is food sold or is it largely beer sales?). The purpose of the questioning will be to try and ascertain a picture of the trade carried on. Remember, you know far more about the business than they do.

Record keeping

The inspector will generally, after the interview, ask to have all the business records for review. They need, therefore, to understand your record keeping and will ask such questions as: What books are maintained? Who writes them up? How often is this done?

Your accountant’s work

Next to be reviewed will be the work undertaken by your accountant. They will want to know, if not covered in the opening letter, what estimates were used, what balance was necessary to square the cash account and how the accountant dealt with that. They will also cover the adjustments necessary to arrive at taxable profit from the profit shown in your accounts, e.g. an adjustment for private use of a motor vehicle.

Drawings and private expenditure

In order that the inspector can confirm whether the profits are sufficient to meet the capital expenditure and personal and private expenditure, they will review the drawings from the business and your personal needs. They will want to know what is spent in cash, e.g. housekeeping, private spending, whether holidays have been taken and whether you have any hobbies, i.e. what do you spend your money on?

Assets

If the inspector has not already asked you to complete a Statement of Assets, they will try to establish the investments held and assets purchased (particularly properties). What did it cost? How much of it was financed? Do you have an outstanding loan balance? Have you lent monies to family and friends that haven’t been repaid? Have you extended your home? What did it cost and how was it financed?

Other monies received

Do you gamble? Have sums been received by way of a loan? Any legacies? This is to stop the items being offered as excuses once the extent of any understatement of income has been calculated.