

VAT compliance: increased scrutiny by HMRC

VAT registered organisations should be paying serious attention to the pledge made by the new Labour government to tackle the tax gap.

What do you need to be aware of?

Their intention is to achieve this by:

- modernising HMRC;
- investing in more HMRC staff;
- focused on compliance;
- changing the law to tackle tax avoidance.

The policy in practice

The 2024 Autumn Budget has given us some more information on how the government intends to achieve this. 5,000 additional HMRC staff will be focused on compliance, with funding for a further 1,800 debt management personnel.

We had already seen an increase in VAT compliance checks before the general election, and the Budget measures are likely to continue that trend.

The government is also consulting on new ways to tackle tax non-compliance, including reviewing existing powers around assessments and enquiries.

Where tax is not paid on time, including where an investigation leads to an increased tax liability, a higher rate of interest will be charged from April 2025. The environment is, therefore, one of increased scrutiny and review, with higher costs likely where things do go wrong.



Are you ready for when the inspector calls?



What triggers a VAT inspection?

A VAT inspection can be triggered by various factors including:

- unusual transactions on a VAT return (eg a large net reclaim of VAT that is not within the parameters of the normal trading pattern);
- suspected irregularities in VAT returns;
- in some circumstances, information received from third parties.

Often, the way that HMRC communicate the requirement for an inspection to the taxpayer can provide insight to the trigger for it.



What to prioritise?

No two VAT inspections are the same, they can result in a range of potential outcomes. Therefore, as a priority, you need to consider:

- is it prudent to carry out pre inspection due diligence in preparation for a potential inspection?
- if not, do you handle the inspection process yourself, or do you involve a VAT specialist to help you through?



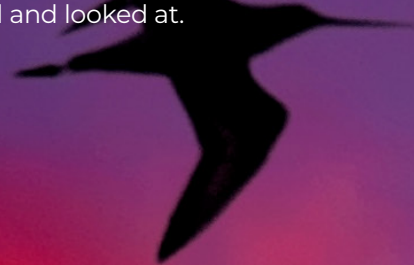
The outcome

Where, after an inspection, the taxpayer is deemed to be compliant by HMRC, then it is normally the case that no further action is required.

Other outcomes could include:

- recommendations for improved compliance and stronger systems;
- requesting additional information; or
- an assessment being issued, with possible interest and penalties being applied.

The duration of a VAT inspection can vary depending on the complexity of the business and the issues being checked and looked at.



Next steps

It is possible to disagree with HMRC's findings and ask for a formal internal review of the matter. You can also appeal the decision to the formal Tax Tribunals.

HMRC's VAT inspection programme is a risk-based one, intended to close the tax gap further. **Therefore, identifying potential VAT saving opportunities would not normally be top of their list.**



What should you do and how can Moore Kingston Smith help?

Moore Kingston Smith has a dedicated VAT advisory team with specialists who have a range of skills and experience, including in HMRC interactions, to support in every aspect of a VAT inspection process. We can help you prepare, identify risks and opportunities, and guide you through the process.

We offer a review of your VAT affairs, records and procedures before any inspection has even begun, through to onsite support and liaison with the VAT inspector on your behalf, or just an assessment of the communications sent to you by HMRC.

Our VAT advisory team have extensive experience in all areas of the tax. Please contact [Debbie Jennings](#) who would be delighted to help and provide further information.



Contact us



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