

Prepareforsuccess ords need

Why you need good accounting records to satisfy HMRC

When running your own business, it's vital that you keep a record of all of your outgoing and incoming payments. As a new business owner you may not know that it is essential you keep a record of your accounts and the implications you may face if you don't keep a record. Below we outline the main reasons why this is necessary for your business.

Legally you have to keep records for your business and for any other income you get. This is so you can fill in your tax return and show that the figures are right. You'll need to keep at least:

- invoices for sales and purchases
- receipts for business expenses
- bank records.

Good records will also save you time and help you run your business more efficiently. This information leaflet focusses on the accounting records you need to keep to satisfy the tax authorities.

HMRC checks on returns

If Her Majesty's Revenue and Customs (HMRC) has reason to suspect that a self assessment, corporation tax return or VAT return is incorrect, it will carry out a compliance check. Usually, something will trigger a check. For example, when figures entered on a return appear to be wrong. Or when a small business suddenly makes a very large claim for VAT, or one with a large turnover declares a very small amount of tax. The only way HMRC can find out whether the return is correct is by carrying out a check.

If the check shows that there is nothing wrong, HMRC will bring it quickly to an end. If the check shows that something is wrong, HMRC will work with you and your accountant (if you use one) to put things right. If any tax has been overpaid, it will be repaid with any interest that is due. But interest may be charged on tax that is underpaid.

HMRC may also issue an assessment or amend the relevant return, depending on the type of tax involved, to collect any unpaid tax. In some instances, an error that relates to one tax will mean that another tax also has to be corrected. For example, an error in charging excise duty on goods sold generally means the VAT charged on the sale may also be wrong.

You can ask for a review of, or appeal against, most of HMRC's decisions. The decision notice issued by HMRC explains what you can appeal and what you can't. In most cases, your appeal will be settled by reaching an agreement with HMRC. But if you can't agree, you can ask for either:

- · a review by HMRC; or
- an independent tribunal to hear your appeal.

HMRC has also carried out checks on how businesses keep their records. If HMRC decides to look at your business records they will usually contact you by telephone. Businesses need to keep records to complete their tax returns correctly, and pay the right amount of tax at the right time to avoid interest and penalties.

When they telephone they will ask you questions to help them work out if you are keeping the business records you need to meet your legal responsibilities. The telephone call should take between 10 and 15 minutes.

From the replies you give, the HMRC officer:

- will assess whether you are likely to be able to submit an accurate tax return from your records;
- will tell you during the call and will confirm it in writing, if no further action will be taken at this stage;
- may feel you could do with some additional help and support – if so they will tell you on the call and pass your details to HMRC's Business Education and Support Team who will contact you with information about self-help guidance and training;
- may decide you are at risk of keeping inadequate records and therefore need a face-to-face visit – they will tell you this on the call; or
- may pass your details to the visiting booking team who will contact you to arrange a suitable date and time for the visit, and confirm that in writing.

The consequence of a compliance check or a business records check may be that your business has to pay additional tax as well as facing penalties.

More information: gov.uk/keeping-your-pay-tax-records

>> Records for VAT

Every business registered for VAT must maintain financial records that comply with the guidelines provided by HMRC. Similarly, it is a requirement of the Companies Act that every company should keep proper accounting records of money received and paid, of all sales and purchases, and of assets and liabilities

More information: gov.uk/vat

>> Records for employers

HMRC requires every business that employs staff to keep proper records for Pay As You Earn (PAYE) and for the calculation of tax liabilities. In some types of business, additional records have to be kept to satisfy government requirements. With the introduction of Real Time Information (RTI), employers must advise HMRC of their payroll at the same time as making payment to employees.

More information: gov.uk/paye

If you need further help with your business records and HMRC, a free initial discussion with an ICAEW Chartered Accountant is a good place to start. Visit businessadviceservice.com



Prepare for business

Decisions you take in the early years of your business can be the most difficult as well as the most important, particularly if you are a first-time entrepreneur.

Prepare for success

The ICAEW Business Advice Service experts will help you make those crucial first steps and then grow your business with confidence.



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Prepare for business, prepare for success.

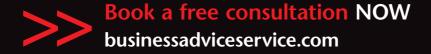
ICAFW Business Advice Service

The ICAEW Business Advice Service (BAS) provides professional advice for start-ups and owner-run businesses.

As well as practical help online in the form of white papers, short PDFs and blog articles, we enable businesses to receive an initial consultation at no charge from an ICAEW Chartered Accountant.

ICAEW is a world leading professional membership organisation that promotes, develops and supports over 144,000 chartered accountants worldwide. We provide qualifications and professional development, share our knowledge, insight and technical expertise, and protect the quality and integrity of the accountancy and finance profession.

ICAEW Chartered Accountants are the biggest source of business advice, reaching over 1.5m businesses from more than 20,000 offices across the UK.



This leaflet is part of a series.

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