

# Managing tax risk



By thinking proactively about tax risk and how HM Revenue & Customs will view a return, we can anticipate what may trigger their interest and disclose more information up front with the aim of preventing an enquiry.

HM Revenue & Customs (“HMRC”) are continuing to focus their attention on wealthy individuals. In order to manage their tax risk there are some key questions that such individuals should consider:

- How will HMRC approach their tax affairs?
- How can they proactively change their risk profile with HMRC?

The UK tax authorities have access to more information than ever before, both across jurisdictional borders and from domestic sources such as the HM Land Registry, The Home Office, banks and other financial institutions. Coupled with more sophisticated computer analysis, a more punitive penalty regime and focusing investigative resource on specific areas of tax leakage, the risk of enquiry and challenge for wealthy individuals is increasing.

Proactive consideration of tax risk and potential strategies for mitigation is important, especially for those with:

- Non-domicile status
- International financial affairs
- Family or personal holding structures for business or investment interests
- Involvement in complex investments and transactions (e.g. private equity)
- Interests in luxury assets such as yachts, artwork, antiques, aircraft etc.

The risk profile of an individual is also heightened for those

who live and/or work in different countries.

By working with the individual we can assist them to manage and mitigate their tax risk. The result is that we work jointly with the client and HMRC to increase HMRC’s understanding of the individual and their tax profile so as to minimise unnecessary enquiries

## Triggers for HMRC investigation

A range of different events can put the spotlight on an individual’s financial affairs including:

- One off liquidity events
- Change of lifestyle or residency
- Flow of third party financial information (banks, property transactions etc.)
- International reporting and transparency requirements
- Increased media profile
- Change of tax status – for example an individual becoming deemed domiciled
- Succession planning

## High Net Worth Individuals (“HNWI”)

A HNWI is considered to be an individual with identifiable wealth of over £10 million. A HNWI is far more likely to have large complex transactions, multiple sources of income and cross-jurisdictional affairs. This triggers a higher level of attention and specialist input by HMRC to understand if the tax treatment on such self assessment returns is correct.



HMRC's systems are increasingly sophisticated at interrogating offshore data, third party information and analysing unusual movements in tax return figures but without additional assistance they are not always able to put the pieces together correctly. We can therefore work with HMRC to open a dialogue to help them understand what has occurred so that when the event or change of status is reported on the tax return the treatment is not unexpected and does not trigger a flurry of questions.

HMRC enquiries can be protracted and costly, especially when occurring some time after an event. Often the biggest difficulty is demonstrating the reality and substance of a transaction with sufficient contemporaneous documentation to HMRC's satisfaction. This can be a number of years after a transaction. Again we can proactively manage the documentation of a transaction so that such evidence is available should an enquiry subsequently be raised.

To manage an individual's tax risk, it needs to be considered from an early stage in a transaction or compliance cycle alongside the normal advice.

## Dealing with tax risk

By thinking proactively about tax risk and how HMRC will view a return, we can anticipate what may trigger their interest and

disclose more information up front with the aim of preventing an enquiry. We can assist clients:

- Identify and understand your tax risks
- Make informed decision about transactions and how to mitigate risk
- Proactively assist HMRC's understanding of the position if necessary

## How we can help

We have significant experience in:

- Navigating and understanding HMRC's organisational architecture
- Proactively explaining complex transactions
- Identifying and reducing areas of uncertainty
- Working together with the HMRC customer compliance manager
- Minimising risk of enquiry
- Providing the correct supporting information

Our Tax Risk and Dispute Resolution team work closely with other specialists from our Private Client, Trusts and Estates Planning, Corporate Tax, VAT and Advisory practices to provide innovative and client-focused solutions.



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