

## Focus on big business reaps dividends for HMRC

Probes into large businesses led to a 12% increase in revenue collected by the taxman in 2018/19, with a surge in the revenue generated from VAT investigations.

HMRC data analysed by Pinsent Masons shows tax investigations into the UK's 2,000 largest businesses generated £9.8 billion in extra revenue last year, compared with £8.7bn in 2017/18.

There was a 67% increase in the revenue generated through VAT investigations. These contributed 61% of HMRC's total income from investigations into large businesses, compared to 41% the previous year.

Tax investigations into VAT contributed £6bn of the total last year, compared to just £3.6bn in 2017/18. The revenue HMRC derived from VAT investigations had remained fairly stable in the previous three years.

A further £2.6bn was generated by investigations into underpaid corporation tax by the largest UK businesses last year. The increase was partly a result of HMRC's focus on the underpayment of tax by major technology and financial services businesses.

"Bigger UK and foreign businesses are going to find themselves under continued scrutiny from HMRC over the next year," said Stuart Walsh, a tax expert at Pinsent Masons.

"The new government's spending pledges mean HMRC and the Treasury will be under pressure to raise more money. The view is that big businesses are not being put off investing in the UK because of the tax environment, so that gives HMRC scope to continue to push very hard wherever it sees the possibility of underpaid tax," Walsh said.

HMRC is reportedly investigating a large 'gig economy' company over £1bn of disputed VAT payments, and VAT issues have also caused problems for smaller listed UK companies in the past.

Walsh said HMRC was targeting financial services businesses as large parts of those businesses are not covered by the normal exemption from VAT for financial services, with areas such as mergers and acquisitions advice, portfolio management and some investment advice and research all taxable. As of April, VAT exemption rules were changed such that insurers were no longer permitted to treat pension fund management services as exempt.

HMRC is also able to investigate large businesses where it suspects them of not paying enough tax as they have incorrectly identified where a service was supplied, and therefore may not have paid the correct VAT due.

HMRC data shows that around 9% (£12.5bn) of all VAT due is unpaid, up from 8.5% and 7.4% the two previous years.

"VAT is likely to remain a flashpoint for HMRC over the next few years, given that there was a record level of VAT that HMRC believes it was underpaid last year," Walsh said.