



### **Partnerships under closer Revenue scrutiny**

Specialist units have been set up within the Revenue to focus specifically on partnerships and their tax affairs. This will inevitably mean that partnerships are included when selecting cases for enquiry. Enquiries will look at a combination of tax and accounting information to identify any potential errors or incorrect application of accounting principles.

HMRC will write to the partnership's nominated partner and external accountant to ask for additional information that relates to its area of concern – usually requesting further analysis of the figures submitted.

The information provided may be enough to satisfy the inspector – or agreement is reached as to appropriate adjustments – and the enquiry will come to an end.

Many issues can be resolved by such correspondence but HMRC inspectors may also wish to meet in person to discuss specific matters, particularly if their queries are disputed.

The inspector may seek to visit the partnership's premises and has powers to see all relevant financial records. If a resolution still cannot be agreed with the inspector, any dispute is put before the tax commissioners, with any subsequent appeal being via the court system.

### **An enquiry may focus on any of the following areas:**

- Asking for detailed analysis of potentially tax-sensitive expense categories – e.g. to identify if any entertaining costs have been misdescribed as marketing.
- Reviewing whether items that should be treated as capital items for tax purposes are included in revenue costs – e.g. capital improvements or additions within repairs.
- Asking for the evidence of business use percentages of costs with a mixed private and business purpose – e.g. business use of partners' home phone bills or motor costs.
- Considering the basis of capital allowances claims on office fit-out costs.
- Questioning the basis of computing accrued income under FRS5/UITF40, the records used and methodology adopted, in particular in identifying contingent work and valuation treatment of such work.
- Reviewing whether provisions have been appropriately calculated under FRS12 and the evidence thereof – e.g. on dilapidations and onerous lease obligations.
- Seeking an understanding of the bad debt-credit note provision policy and the detailed methodology used to arrive at the provision.

With another financial year end approaching, partnerships need to be looking at their accounting policy and procedures. Any partnership that has not had an enquiry should not be complacent, one could be just around the corner. So be prepared! If you have any queries, please give me a call.

**Sue Stephens, Tax Manager**