

FOCUS ON

Agriculture and rural business

Business Records Checks (BRC) are checks undertaken by HM Revenue and Customs (HMRC) on the adequacy of the statutory business records of Small and Medium sized Enterprises (SMEs). SMEs are businesses with an annual turnover below £30million who employ less than 250 people.

When did the BRC programme begin?

A pilot programme of BRCs began in April 2011 with the aim of ensuring all business records are adequate and meet statutory requirements, and enable tax returns to be completed accurately and within time limits. Under the pilot, SMEs were subject to HMRC spot checks on their records and could be issued with fines of up to £3,000.

HMRC originally had plans to scrutinise the record keeping of as many as 50,000 small businesses - including 20,000 in the 2012/13 tax year - and announced an increase in the number of staff employed to carry out the checks from 30 to 120.

In fact, around 3,431 checks were carried out up to 17 February 2012 as part of the pilot. It found 36% of businesses with issues surrounding record keeping, of which 10% had serious enough issues to warrant a follow up visit from HMRC.

Why was the BRC programme redesigned?

Following a review with trade and professional bodies' representatives, HMRC announced that it would delay the implementation of the BRC programme. Business leaders, MPs and business groups such as the Federation of Small Businesses, had all voiced concern over the programme's potential to affect thousands of SMEs already struggling with HMRC red tape.

The pilot was suspended from 3 February until 31 October 2012 to allow HMRC to redesign the process. Although the review found evidence that the BRC programme was effective in improving record keeping practices amongst SMEs, it recommended better targeted checks and wider availability of education and support.

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How does the current BRC programme work?

A new approach to BRC started on 1 November 2012 - the redesigned BRC process has now been launched and will be rolled out across the UK on a region by region basis between late November 2012 and February 2013. Under the new approach, HMRC will now contact businesses deemed at 'high risk' of keeping inaccurate records by letter to arrange a short telephone questionnaire. It will then confirm whether further action is required; businesses with 'some identified issues' will be offered self-education options, while only those at 'high risk' will be referred for a Business Record Check visit.

As a result, fewer SMEs may be subject to spot checks on their business records. This means that small businesses are still at risk of in-year penalties before the tax return is submitted, for keeping records below the standard HMRC consider is adequate. Which begs the question - is it realistic to expect smaller businesses to have perfect records written up every day?

What does a BRC involve?

According to the HMRC guidance on BRCs:

- When the HMRC contact you by telephone.
- HMRC will write to you and then contact you by telephone to ask about your records. When they phone 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.
- When HMRC visit your business.
- If HMRC feels you need a face-to-face visit, they will contact you to agree and date and time. The visit will usually take around two hours.
- If the visiting officer finds your record keeping needs

improving they will discuss this with you and your agent, if they are at the meeting.

Possible outcomes of a check

If your records are inadequate you may have to pay a record-keeping penalty. But before this happens HMRC will give you the opportunity, and further time, to bring them to an adequate standard. HMRC will arrange a follow up visit to check that you have made the necessary improvements. This will usually be within three months of the initial visit.

If, at the follow up visit, HMRC find that your records have still not improved to an adequate standard, a penalty will apply. The penalty is usually £500 for the first offence. For businesses in their first year of trading, the penalty will be £250. If, during the Business Record Check, HMRC find that you have deliberately destroyed your records, a penalty of £3,000 would apply.

Contact Us

If you would like our help in reviewing your statutory business records, please contact Sarah Dodds, Head of Agriculture and Rural business.



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