THE PERSISTANT TAXMAN

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In the March, 1984 issue I wrote about the relationship between accountant and professional client arises due to tax problems. This article describes the not unusual experience the client may have had before going to his accountant.

It is not unusual for the Revenue to take three to five years to catch up with a newly self-employed person, particularly if, like some veterinarians, he moves around the country a lot. It is tempting, when the first letter eventually arrives from the Revenue, to pretend it was never received. This only puts the problem “on the long finger”. Inefficient though the Revenue might be, it does eventually catch up with the recalcitrant taxpayer. This may take a few years, by which time the taxpayer has been in business a number of years, inadequate business records have probably been kept and a substantial liability for tax has accrued. The taxpayer may now be in an impossible situation. With a family, large mortgage, thriving but busy practice requiring investment in new equipment, drug stocks, etc., where will he raise the cash to pay substantial back tax? Financial institutions are not very sympathetic when a proposed loan is required to pay off a large tax bill.

The Likely Course of Events

If the taxpayer is unknown to the Revenue initial contact is likely to arise commonly from the following events: a male taxpayer marrying a PAYE taxpayer; the wife will be put on emergency tax until a tax-free allowance certificate in her married name is made available by the husband’s Inspector of Taxes; a purchase of a house involving payment of stamp duty; declaration by the banks/building society of interest paid or received; the taxpayer inheriting property which may have capital acquisitions tax implications.

The initial correspondence from the Revenue is usually standard form, requesting basic information such as tax reference number. It is at this stage that an unregistered taxpayer should go to his accountant to have accounts prepared and tax returns submitted to the Revenue. The Revenue is generally reasonable in these situations, even where the taxpayer has omitted to make returns for a number of years.

Whether or not the initial correspondence is answered, it will probably be followed by a request to complete annual tax returns. Estimated assessments to tax may then be issued, particularly if the tax returns are not completed. Theses assessments are normally substantially overestimated to force the taxpayer to appeal the assessment and submit tax returns. If the assessment is not appealed the estimated tax becomes payable and interest accrues at a rate of
1.25 per cent per month until the payment is made. Estimated assessments must be appealed within 30 days. There are provisions for late appeals but if the appeal is made more than 12 months after the date of the notice of assessment then the taxpayer must pay the tax charged per the assessment, plus interest thereon, before the appeal has been heard.

Where the Revenue have taken court proceedings no late appeal will be admitted. Thus negotiation of a reasonable settlement becomes increasingly unlikely. For taxpayers who have kept inadequate accounting records this negotiation process is a key factor in agreeing the amount of the final tax liability.

Finally, when the Revenue can get no satisfaction from the taxpayer, it may apply to the court for a certificate instructing the county registrar or sheriff to recover goods to the value of the tax outstanding.

**The Moral**

When clients let their affairs get to crisis point they expect their accountants to work miracles. Not only is this unlikely – remember the taxpayer may have little or no accounting records – but the accountant will have to charge a substantial fee to cover meetings with the Inspector of Taxes, extensive correspondence with the Revenue, the preparation of a number of years’ accounts and returns from inadequate records and maybe even court appearances.

If you are setting up a veterinary practice, or even where you already have a practice, keep good accounting records, reply to Revenue correspondence promptly and you will find them not as difficult to deal with as you expected.