HMRC Risk Assessment Report

Tax Year:	2023-24	Risk Score:	18/100
Turnover:	£50,000.00	Risk Band:	LOW
Total Expenses:	£15,000.00	Profit:	£35,000.00

Risk Indicators Triggered

• Loss declared this tax year (+12 points)

• Multiple rounded figures detected (+6 points)

Detailed Analysis

1. Executive Summary (Tax Year 2023–24) Based on the information provided, the overall HMRC enquiry risk is assessed as **LOW (18/100)**. Although key ratios appear broadly coherent, two flagged patterns—**a loss indicator** and **multiple rounded figures**—align with known HMRC compliance filters and warrant strong supporting records.

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2. Detailed Analysis of Each Triggered Risk Factor

A) Loss declared this tax year (+12 points) Why this is a risk indicator: HMRC commonly applies increased scrutiny where a return shows a loss, a profit lower than expected, or results that are inconsistent with turnover and expense profiles, because these outcomes can sometimes reflect misclassification of costs, timing issues, or non-business/private expenditure being included.

Data consistency note: Your summary shows Turnover £50,000, Expenses £15,000, Profit £35,000 (70% margin), which is not consistent with a loss. This mismatch is itself a risk indicator from a compliance perspective because HMRC checks often rely on internal consistency and third■party comparisons (e.g., prior year patterns, sector norms, and data-matching). If the submitted return contains a loss while the accounts summary suggests a profit, HMRC may view this as a potential reporting or computation discrepancy.

What this indicator typically suggests to HMRC (pattern-based): • Possible errors in the tax computation (e.g., adjustments, capital allowances, disallowable items, basis period/brought-forward loss entries). • Potential incomplete income reporting, especially where turnover appears low relative to lifestyle or business activity. • Greater need to validate that expenses are wholly and exclusively for business (HMRC often focuses here when losses are claimed).

B) Multiple rounded figures detected (+6 points) Why this is a risk indicator: Rounded numbers (e.g., frequent use of amounts ending in “00” or “50”) can suggest estimation rather than contemporaneous records. HMRC compliance activity frequently tests whether figures are derived from source documentation (invoices/receipts/bank transactions) rather than approximations, particularly for expense categories that are prone to mixed private/business use.

Where rounding tends to be probed: • Expense lines that are often estimated: motor costs, home office costs, travel and subsistence, repairs, and “other expenses”. • Any area where the ratio is relatively high or unusual, or where claims are inconsistent with supporting evidence.

Data points that interact with this flag: • Motor Costs Ratio: 12.0% (moderate level, but motor costs are a common enquiry focus due to private-use risk). • Home Office Ratio: 0.2% (low, generally less contentious, but HMRC may still seek a basis of calculation). • Mileage Claim Value: £0.00 alongside motor costs being claimed can prompt a “methodology” question (see Section 3).

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3. What HMRC Typically Examines in These Cases (Known Audit Patterns)

HMRC’s enquiries commonly focus on accuracy, completeness, and substantiation. For the flagged indicators above, typical examination areas include:

1) Internal consistency and computational accuracy • Whether the declared result (profit/loss) aligns with turnover and expense totals. • Whether there are adjustments (capital allowances, disallowable expenses, private-use apportionments, loss relief claims) that

explain differences. • Whether entries are posted to the correct tax year (timing/cut-off).

2) Completeness of income HMRC frequently tests income completeness via: • Business bank account scanning (credits vs declared turnover). • Review of invoicing sequence (missing invoice numbers, cancelled invoices). • Cross-checks with third-party information where relevant (card processors, platforms/marketplaces, CIS where applicable).

3) Expenses—especially categories prone to private benefit Given your ratios, HMRC commonly probes: • Motor costs (12%): insurance, fuel, repairs, finance/lease, servicing, vehicle purchase/allowances, and private-use apportionment. • Travel (1.2%): whether trips are business-related, and whether subsistence/accommodation is supported. • Home office (0.2%): basis for calculation (simplified vs actual costs), and evidence of business use.

4) Evidence quality (rounded figures theme) • Whether expenses are supported by itemised receipts/invoices and bank transactions. • Whether any figures appear to be “balancing amounts” to reach a target profit/loss. • Whether records meet HMRC expectations for contemporaneous bookkeeping (digital records where applicable).

5) Methodology consistency (motor costs vs mileage) With Mileage Claim Value = £0.00 but motor costs present, HMRC may ask: • Which method is being used to claim vehicle costs (actual running costs vs mileage basis). • If actual costs are used, whether there is a mileage log or other evidence supporting business/private split (where private use exists). This is not inherently incorrect—HMRC typically just expects the approach to be consistent and evidenced.

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4. Document Checklist (Records to Maintain) The following records are commonly requested or relied upon to substantiate returns where loss/rounding indicators are present:

A) Income / turnover support • Sales invoices issued (numbered sequence) and/or till/EPOS summaries. • Contracts/engagement letters and job sheets (where relevant). • Bank statements for all business accounts (and any personal accounts used for business receipts). • Payment processor statements (e.g., Stripe, PayPal, Square) and payout reconciliations. • A turnover reconciliation (invoices/receipts → bank credits → accounts).

B) General expense evidence • Purchase invoices and receipts (including supplier details and VAT invoices if applicable). • Bank/card statements supporting each expense line (ideally with transaction references matched to receipts). • Bookkeeping exports (ledger detail), trial balance, and profit & loss report. • Details of any “miscellaneous/other” expense breakdowns.

C) Motor costs (higher scrutiny area) • Vehicle details (make/model, ownership/lease documents). • Motor insurance documents. • Fuel receipts/charge statements. • Repairs/servicing invoices; MOT certificates. • Lease/finance agreements and payment

schedules (if applicable). • Evidence supporting business use methodology: • Mileage log (dates, start/finish, purpose, miles) if business/private apportionment is needed. • Notes explaining how the business-use percentage was derived.

D) Travel and subsistence • Tickets/receipts (rail/air/taxi), hotel invoices, parking receipts. • Diary/calendar entries supporting business purpose (meeting/client/site details). • Mileage logs if travel includes use of personal vehicle (even if mileage not claimed, logs can support purpose).

E) Home office • Method used (simplified or actual cost approach) and workings. • If actual costs are used: utility bills, broadband statements, rent/mortgage interest documentation (as relevant to the calculation), and a clear apportionment basis (e.g., rooms/time).

F) Year-end and adjustments (to address the loss/profit inconsistency) • Final accounts working papers or accounting software reports. • Capital expenditure list and capital allowances computations (if relevant). • Private-use adjustments workings (motor, phone, home costs). • Loss computations/claims documentation (where a loss is stated on the return).

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5. General Recommendations for Record-Keeping (Non-advisory, compliance-focused) - Maintain a **clear audit trail**: each figure in the return should be traceable to bookkeeping entries and then to bank transactions and source documents. - Reduce reliance on estimates: where rounded figures are used (e.g., apportionments), retain **written workings** showing how the number was calculated. - Keep **separate business banking** where possible to simplify HMRC-style income completeness checks and reduce mixed-transaction ambiguity. - For higher-risk categories (motor, travel, home office), keep contemporaneous logs (mileage/diary notes) to support **business purpose and apportionments**. - Retain records in an organised format (by month and category), ensuring they are accessible for a typical HMRC information request.

Risk Position Summary (for clarity) • Overall risk band: LOW (18/100) • Main drivers: (1) Loss indicator (noting inconsistency with provided profit figures), (2) Rounded figures • HMRC enquiry themes most relevant: computational consistency, evidence quality, income

completeness, and private-use/apportionment support (especially motor costs).

This report is a risk-indicator assessment and recordkeeping-focused compliance overview only. It does not provide tax advice or confirm the correct treatment of any item.

Important Legal Notice

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