



# Tayloredbusinessservices

compliance services tailored to suit your business

## **FINANCIAL PENALTIES FOR FAILURE TO MAINTAIN PROPER RECORDS COULD THIS BE YOU?**

HM Revenue & Customs (HMRC) have recently warned that they are planning to clamp down on small to medium sized businesses during 2011 for failing to maintain proper records and underpaying corporation tax. HMRC will use existing powers to deal with such cases and penalties will be put in place "for poor record keeping". More than two million small to medium sized firms that keep their financial records in poor order will be faced with investigation and fines in excess of £3,000.

HMRC may go back as far as six years and will be looking for matters such as:-

- a) Invoices, receipts, bank statements and cheque stubs with no supporting book-keeping entries or analysis;
- b) Book-keeping entries that are not regularly maintained (i.e. at least monthly);
- c) Entries that appear to be compiled from bank statements rather than actual transactions (i.e. not in date order);
- d) Unaccounted for amounts; and
- e) Documentary evidence such as board minutes and resolutions which support board and shareholder decisions and are in line with the Companies Act 2006 (i.e. dividend payments, transfer of shares)

### **POSSIBLE CONSEQUENCES**

The consequences of not evidencing why and how a dividend payment was made and having the relevant paperwork in place could result in heavy financial penalties and further payment of tax liabilities. For example the tax relief on corporation tax will not be granted and individuals will have higher PAYE and NI contributions as a result. The dividend payment will also be classed as a benefit which should have been shown on the P11D expenses form and will be classed as a loan by the business and as such loan interest should have been charged.

### **WHAT YOU SHOULD DO**

Good governance and record keeping should be at the heart of every business and it is the system by which companies are directed and controlled. It is a proven fact that businesses are more likely to succeed if they maintain and keep good records as they are able to see weekly/monthly cash flows and should there be a disagreement regarding the decision making process, accurate records will assist greatly. Businesses should therefore also be able to demonstrate:-

- a) the timely provision of good quality information to make informed decisions;
- b) a clear and credible company decision-making process; and
- c) shareholders giving proper consideration to the information and making considered judgements.

For companies incorporated under the Companies Act 1985 it would be an opportune time to update the articles of association to ensure changes made by the new Companies Act 2006 are incorporated and that no conflict arises between the articles and the new Act.

Taylored Business Services has a track record in successfully providing expert services in all aspects of administrative compliance, related statutory and chartered secretarial matters. Taylored Business Services are offering a review of business records with recommendations for any possible failings that may be evident.

So instead of waiting for a possible financial penalty and heavier tax burden why not call in an expert to carry out a health check and help get your governance back on track.