

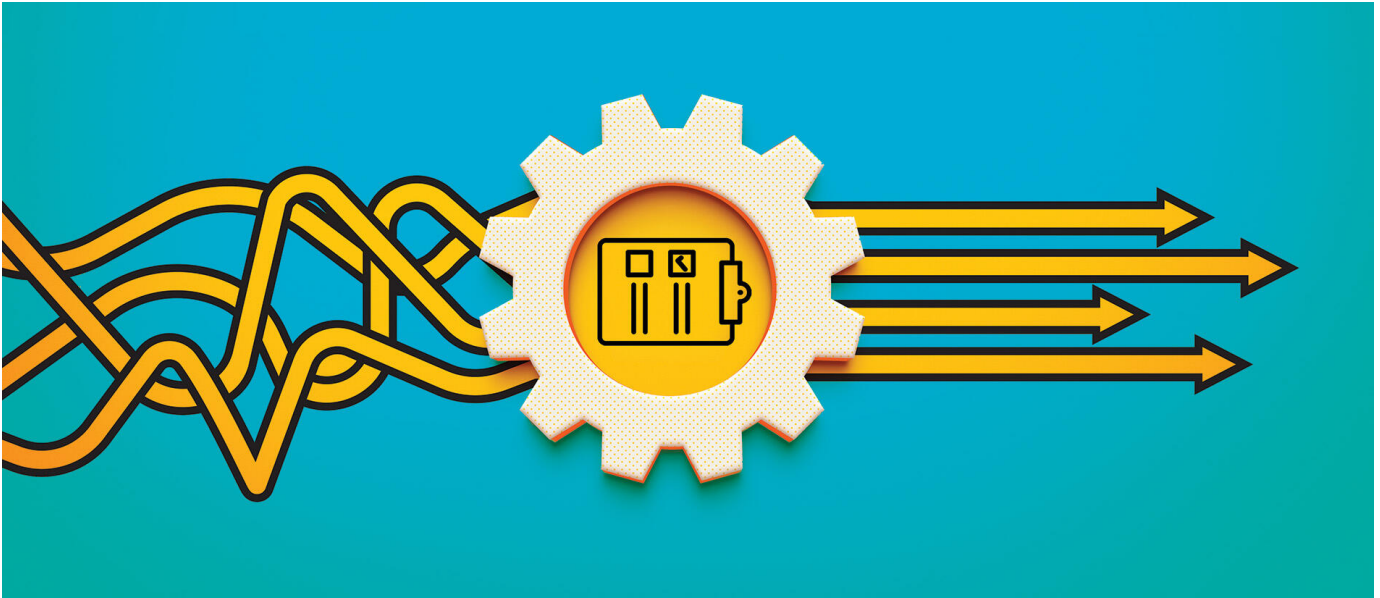
Tax audits: be ready for tomorrow's enquiry

General Features

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Tax audits are becoming data-driven and process-focused, requiring stronger data and continuous readiness to withstand HMRC scrutiny.

Key Points

What is the issue?

Tax audits are becoming more data-driven, process-focused and informed by external information, with HMRC increasingly interrogating underlying data, systems and controls rather than relying on outputs or explanations.

What does it mean for me?

Tax teams must assume full visibility of their data and processes, even years after decisions are made, with enquiries becoming more targeted and demanding.

What can I take away?

Focus now on strengthening your data quality, building clear and repeatable processes, and ensuring robust digital audit trails, as audit readiness is no longer a one-off exercise but an ongoing operational capability.

For most of my career as a tax professional, I have been fascinated by the idea of doing things better, smarter and in a more technology-enabled way. Without a constant focus on improvement, work can quickly descend into late nights, fragile calculations, over-budget projects and lost audit trails.

But operational maturity is no longer just about efficiency. As tax authorities become more data-driven and technologically sophisticated, operational maturity is becoming something more fundamental: a requirement for withstanding scrutiny.

In the UK, HMRC has been clear about the direction of travel. Through initiatives such as Making Tax Digital, its 2025 roadmap and the move towards e-invoicing, it is signalling a shift to a more data-driven, technology-enabled compliance environment.

As tax authorities gain greater access to data and improve their ability to analyse it, the nature of enquiries will evolve. Reviews will move closer to the data and systems, rather than relying solely on outputs or taxpayer-prepared explanations.

In that environment, arriving at the correct tax position will be only part of the story. Businesses will increasingly be expected to demonstrate how that position was derived, implemented and governed across their systems and data.

This article sets out a practical perspective on how tax teams can prepare for enquiries that may arise several years from now, when the data, decisions and processes may be scrutinised using far more advanced tools than those available today.

Data: the centre of the modern tax enquiry

Any discussion of the evolving audit landscape must start with data. Tax is a uniquely data-dependent function. It sits downstream of almost every other part of the business, relying on data generated by finance, procurement, R&D and beyond.

In that context, it is unsurprising that 'tax data' has become something of a buzzword in recent years. While tax teams may influence how 'tax data' is managed, they are rarely fully responsible for overall creation, structure or governance.

Consider, for example, accounts payable teams responsible for capturing and validating supplier invoices to support input tax recovery, or R&D teams tracking development hours and expenditure to substantiate R&D claims. The tax function depends heavily on data from these processes that sit squarely outside its direct control.

Historically, HMRC has explored these risks through relatively high-level enquiries, including targeted data requests, sample testing and process walkthroughs. However, this approach is changing.

Over the coming years, businesses will transmit significantly greater volumes of structured data to HMRC, particularly as initiatives such as e-invoicing and expanded digital reporting take hold. At the same time, advances in analytics and data processing mean that tax authorities will be able to interrogate that data at scale. The result is likely to be a fundamental shift in how enquiries begin.

Today, an opening request in a VAT audit might resemble: 'Please provide the top 20 invoices supporting your input tax claim for Q1.'

In the future, that same request is more likely to be framed in a far more specific and data-driven way: 'Data analysis shows that your Q1 input tax claim is supported by 518 invoices. Of these, 28 invoices account for approximately 80% of the total claim value. Within that population, seven invoices display identified anomalies...'

This may sound somewhat futuristic, but it is a relatively simple analysis to perform, requiring only two elements: appropriate analytical tools and sufficiently structured data. Neither of these is beyond the reach of modern tax authorities.

HMRC's information powers already allow it to request a wide range of data, documents and explanations as part of an enquiry. As those analytical capabilities evolve, requests are likely to focus more on underlying data, system extracts and process-level evidence.

For tax teams, the implication is clear. Scrutiny is moving closer to the data itself. Without a robust approach to data collection, management and interrogation, tax

teams risk responding to enquiries using data that was never designed to withstand detailed cross-examination.

Process: building a defensible tax control environment

As the audit landscape becomes increasingly data-driven, the way in which tax processes are designed and controlled must also evolve. Historically, most tax processes have been largely outcome focused. While processes, steps and controls have always mattered, they have not typically been the primary focus of an enquiry. That is beginning to change.

Tax authorities, including HMRC, expect businesses to operate within controlled environments, where tax outcomes are supported not only by technical analysis but by clear, repeatable processes and demonstrable controls. Confidence is derived not just from the result, but also from the reliability of the process that produced it.

We are already seeing this shift reflected in audit enquiries. In recent transfer pricing enquiries, questions extend into areas such as:

- People: which teams were responsible for preparing and reviewing calculations?
- Data: what controls existed over data inputs and adjustments?
- Controls: how was consistency maintained across periods and jurisdictions?

This is closely aligned with HMRC's Guidelines for Compliance for Transfer Pricing (GfC7), which emphasise the need for businesses to operate a 'clear and effective transfer pricing compliance framework', supported by robust governance, documented processes and clearly defined responsibilities.

In practice, HMRC is no longer asking only what was done, but also how it was done – and whether that process is controlled, repeatable and consistently applied. Meeting these expectations requires both a clear narrative and evidence: the ability to explain the process and provide proof that it was followed in practice.

Without this, taxpayers should expect to invest significantly more time and effort in managing enquiries from tax authorities. Even technically correct positions may prove difficult to sustain in situations where the processes that produced them cannot be clearly articulated or evidenced.

Information: the erosion of information advantages?

Another area where tax authority behaviour is evolving is in how business information is gathered and risk is assessed.

Tax teams invest significant effort in understanding and documenting the business context underpinning their tax positions. Changes in business activity are typically monitored through business partnering, stakeholder engagement and internal reporting processes. These developments are then communicated to HMRC through periodic 'business updates', which form the basis for follow-up questions and risk assessment in key areas.

While this dynamic is unlikely to change fundamentally, the level of preparation by the tax authority is increasing – driven by advances in digital research capabilities that are narrowing traditional information asymmetries.

HMRC has long had the ability to draw on publicly available information as part of its enquiries, alongside being able to gather data from third parties and external sources in order to build an independent view of the business activities. What is changing is the ease with which large volumes of unstructured information can now be identified, aggregated and analysed.

Tools powered by advanced analytics – and increasingly by artificial intelligence – can reveal and organise vast amounts of public data in ways that used to be impractical. This includes company filings, press releases, job postings, LinkedIn data and other digital sources that provide insights into how a business is evolving.

Consider, for example, a transfer pricing enquiry where a group has recently expanded into a new market. With access to the internet and a Large Language Model (LLM), it is now possible to uncover and organise extensive insights on recent operational changes, senior hires or expansion into new markets – all of which may have implications for functional profiles, value creation and risk allocation.

With growing information at its fingertips, HMRC is more likely to enter discussions with pre-formed hypotheses based on independently sourced data, leading to more targeted and informed questioning from the outset.

This creates a further risk. HMRC may identify facts or circumstances not previously recognised by the tax team, exposing gaps in their understanding or analysis.

In this environment, traditional approaches to understanding business activity, such as business partnering and internal communication channels, remain essential but are unlikely to be sufficient on their own. Tax teams should consider how to supplement these approaches with more proactive monitoring of internal and external data sources, ensuring that their understanding of the business remains more complete than that of the tax authority.

What can tax teams do today?

Preparing for this rapidly evolving landscape will look different for every organisation. However, there are several practical principles that tax teams can follow.

Adopt a continuous improvement mindset to compliance

Compliance is evolving quickly. Keeping pace with regulatory change – from digital reporting to e-invoicing – is already driving significant technological and behavioural shifts across tax functions.

While these changes present practical challenges, they also create an opportunity to strengthen capability, identify weaknesses in data and processes, and improve audit readiness. Organisations that approach these opportunities proactively are likely not only to keep pace with evolving regulatory expectations, but also build more resilient and efficient tax functions over time.

Assume 100% visibility

Accounting standards require businesses to assume that tax authorities will examine uncertain tax treatments and have full knowledge of all relevant information. In an increasingly digital and data-driven environment, that assumption is becoming more reflective of reality. Tax teams should operate on the basis that their positions, data and processes are visible to the tax authority – and that reliance on non-detection is no longer sustainable.

Update organisational tactics

Many filing systems and approaches to process documentation were not designed for the level of scrutiny now being applied. Legacy approaches often rely on static

policy documents or individuals knowing where information sits and how it fits together. However, increasingly digital audit environments demand something far more structured: searchable, traceable and with well-governed digital audit trails.

For data and documentation, this means moving beyond static folder structures and towards approaches such as digital tagging, making materials searchable and traceable back to source data and specific process steps.

For processes and evidence, this means reducing the separation between process execution and process documentation, and moving towards integrated workflows that capture both in a single environment.

Make friends with your IT teams

Digital audit readiness cannot be delivered in isolation. Tax functions are heavily reliant on enterprise systems, data architecture and digital processes. As a result, the quality of tax outcomes is often shaped upstream – by how data is structured, governed and maintained across the organisation.

Building effective relationships with IT, finance and data teams is therefore critical. Organisations that embed tax into broader IT and finance initiatives benefit from greater access to systems, knowledge and tooling, rather than relying on manual effort to bridge gaps.

Putting it all together

Collectively, these developments are reshaping what audit readiness means in practice. Audits are becoming more data-driven and process-oriented, with tax authorities interrogating underlying data, systems and controls – not just outputs. They are also becoming more continuous and granular, with deeper data requests, more targeted questions and higher expectations around transparency.

The tax audit of the future will not simply revisit past decisions. It will also test the integrity of the processes that generated them. Audit readiness is no longer a periodic exercise. It is an ongoing operational capability. The direction of travel is clear. The only real question is how prepared you are.

