

# New tax penalties and how to avoid them

# Agenda

- Changes to penalties for tax errors in tax returns and documents
- How you can avoid a penalty
- How you can get a penalty reduced
- Suspended penalties
- Where can you get help?

also

- Failure to notify penalty
- VAT and Excise wrongdoing penalties

# The inaccuracy penalties

- Businesses who take care to fill in their tax returns and other tax documents correctly will benefit
- Take action now to make sure your records and systems are in order, it will help us or you produce an accurate tax return
- If you take reasonable care to get your tax right, HMRC will not charge you a penalty - even if you do make a mistake
- Penalties help ensure that everyone pays the correct amount of tax so that the system remains fair
- The new system will come down hard on those who don't comply

# Which taxes are affected?

From 1 April 2009

- Income Tax (this includes Self Assessment)
- VAT
- Corporation Tax
- Capital Gains Tax
- PAYE
- National Insurance Contributions (Class 1&4)
- Construction Industry Scheme

Errors made before this date may be liable to penalties under the previous regime

# Which taxes are affected?

From 1 April 2010

- Environmental taxes
- Excise Duties
- Gambling duties
- Inheritance Tax
- Insurance Premium Tax
- Petroleum Revenue Tax
- Stamp Duties
- National Insurance Contributions (Class 1A)
- Hydrocarbon Oils
- Tobacco Duty
- Alcohol Duty

# How you can take 'reasonable care'

- Reasonable care varies from person to person
- Personal circumstance and ability are taken into account when assessing reasonable care
- You are expected to keep accurate records to make sure your Tax Returns are correct
- Check what the correct position is when you don't understand something
- Tell us or HMRC promptly about any error you discover after sending your Tax Return or document

# What if you take reasonable care yet still make an error?

No penalty is due:

- If you take a reasonable view of the law that is not upheld
- A numerical or transposition inaccuracy occurs but does not produce an obviously odd result
- HMRC advice is followed and all the details and circumstances were provided
- If you act on incorrect advice from a competent adviser who was given the full facts

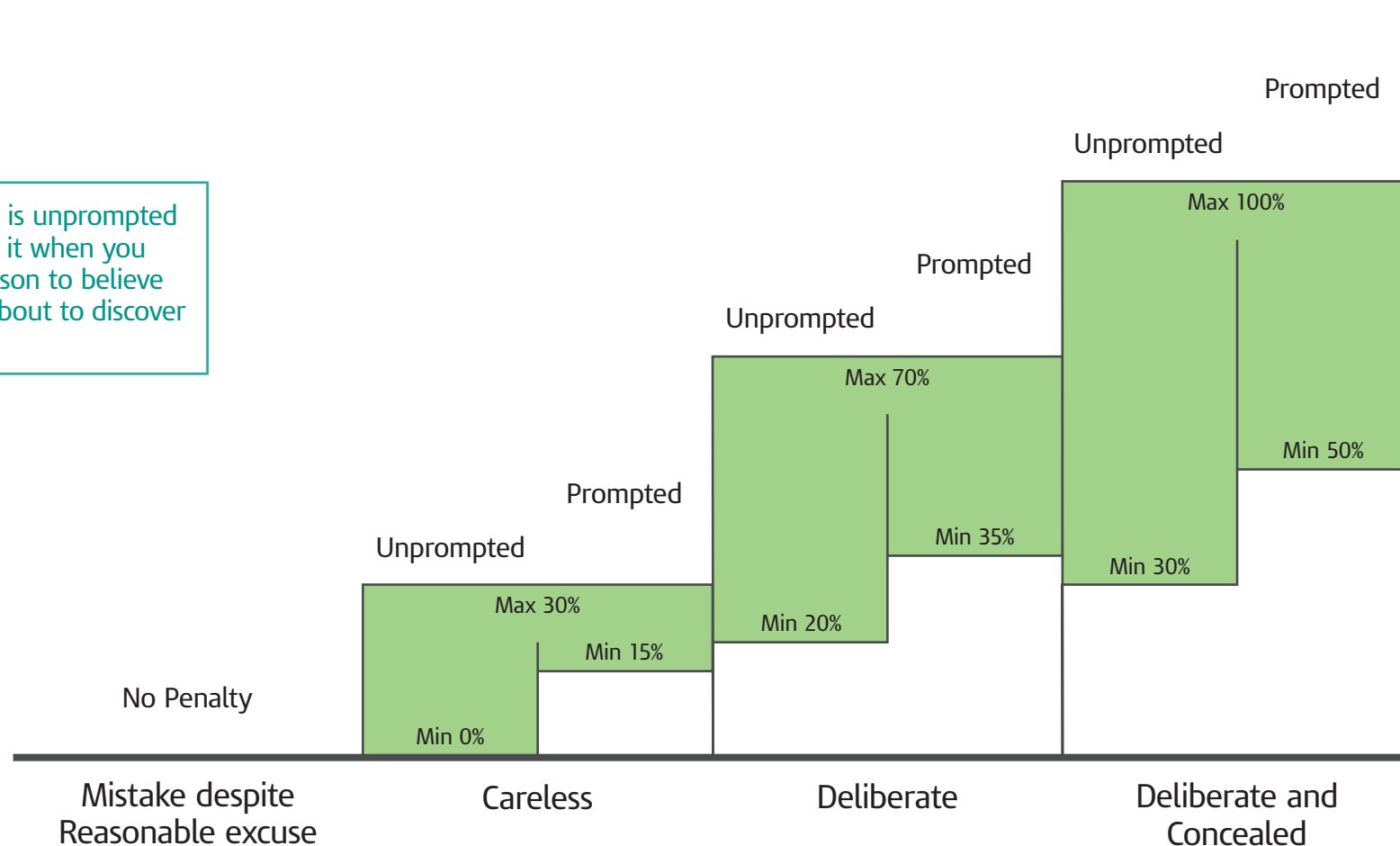
# How filling online can help

- Automatic: a calculation will be done automatically
- Reassuring: on-screen confirmation message
- Available: 24 hour service
- Accurate: electronic form will highlight obvious mistakes

# Penalty rates

## Penalties for incorrect returns

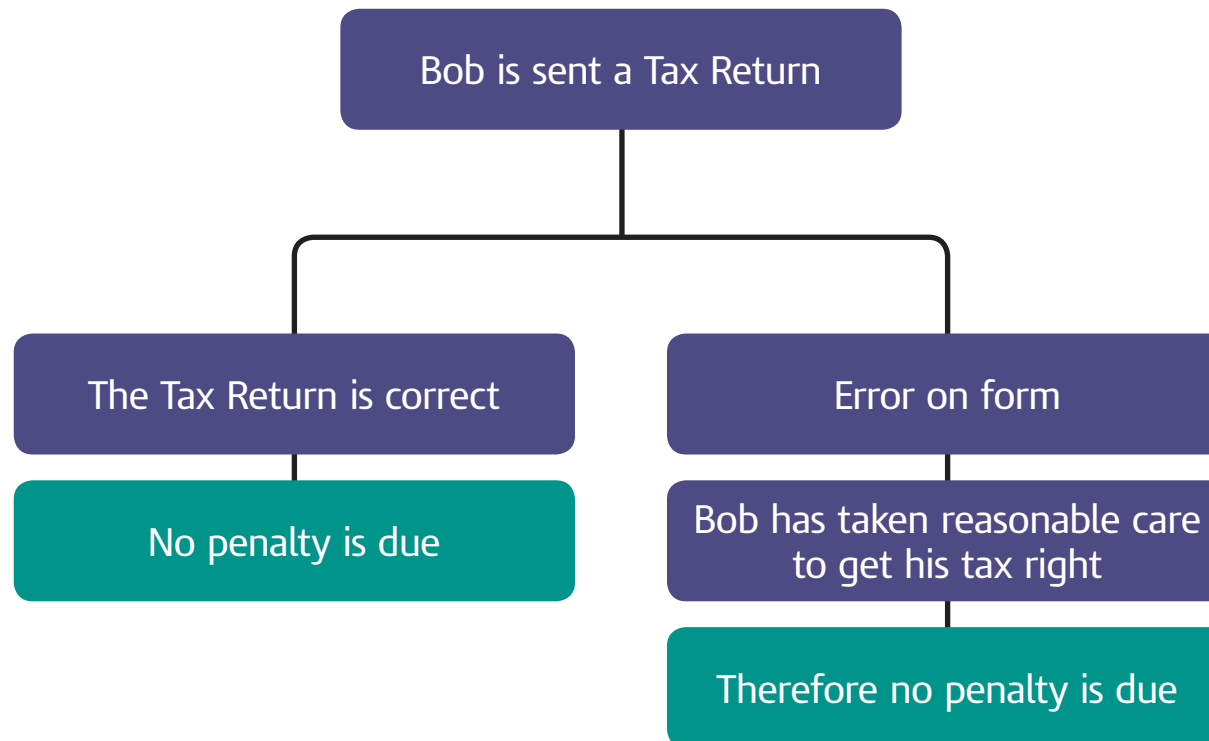
A disclosure is unprompted if you make it when you have no reason to believe HMRC are about to discover the error



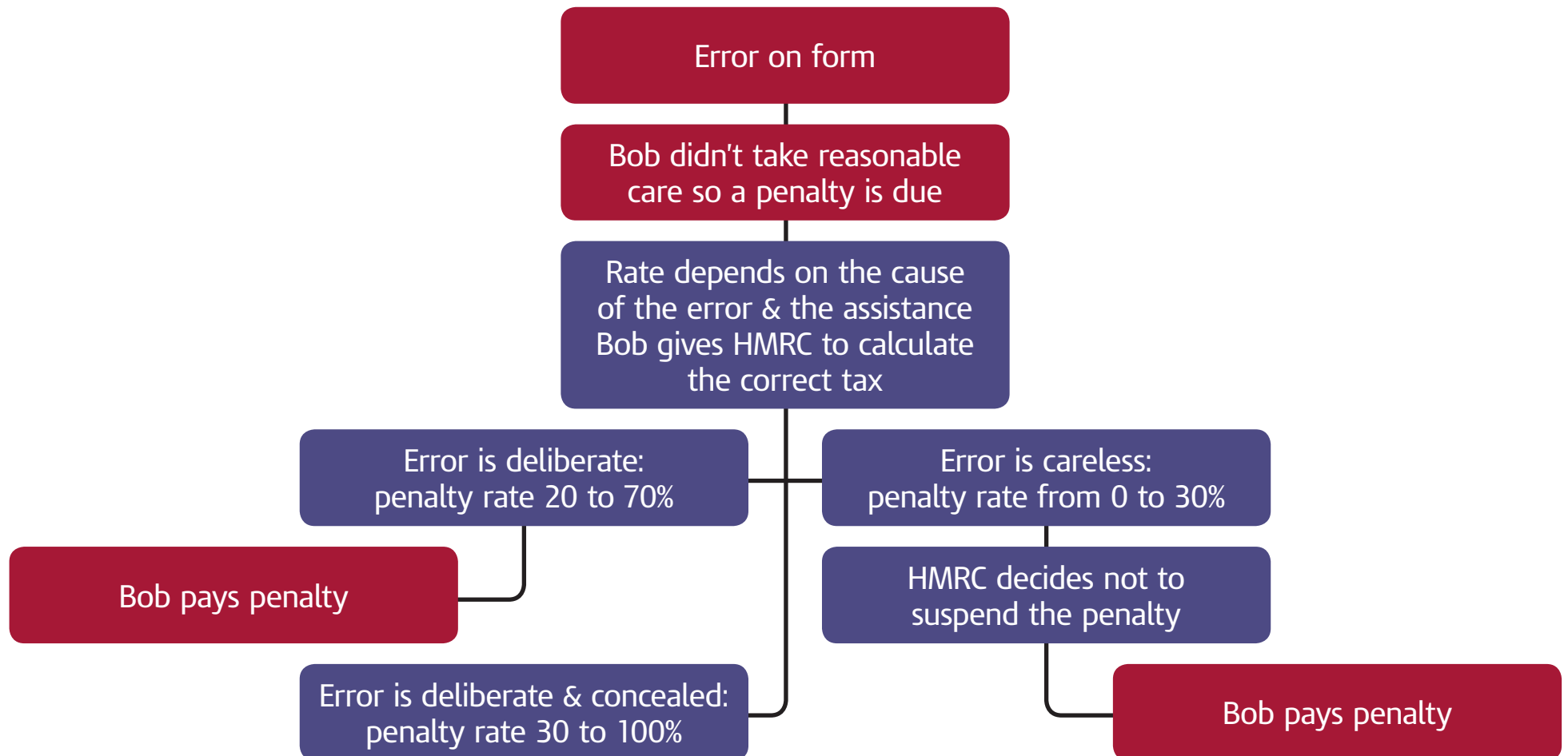
# What if you have to pay a penalty?

- HMRC will contact you to discuss your tax (you can ask us to help)
- They will discuss the reason for the error
- The more serious the reason, the higher the penalty can be
- HMRC will reduce the penalty if you help them work out the correct tax due
- They will explain why they are issuing a penalty and will send you a penalty notice
- You have the right to appeal or have the decision reviewed if you don't feel the penalty is fair

# How it works - no penalty due



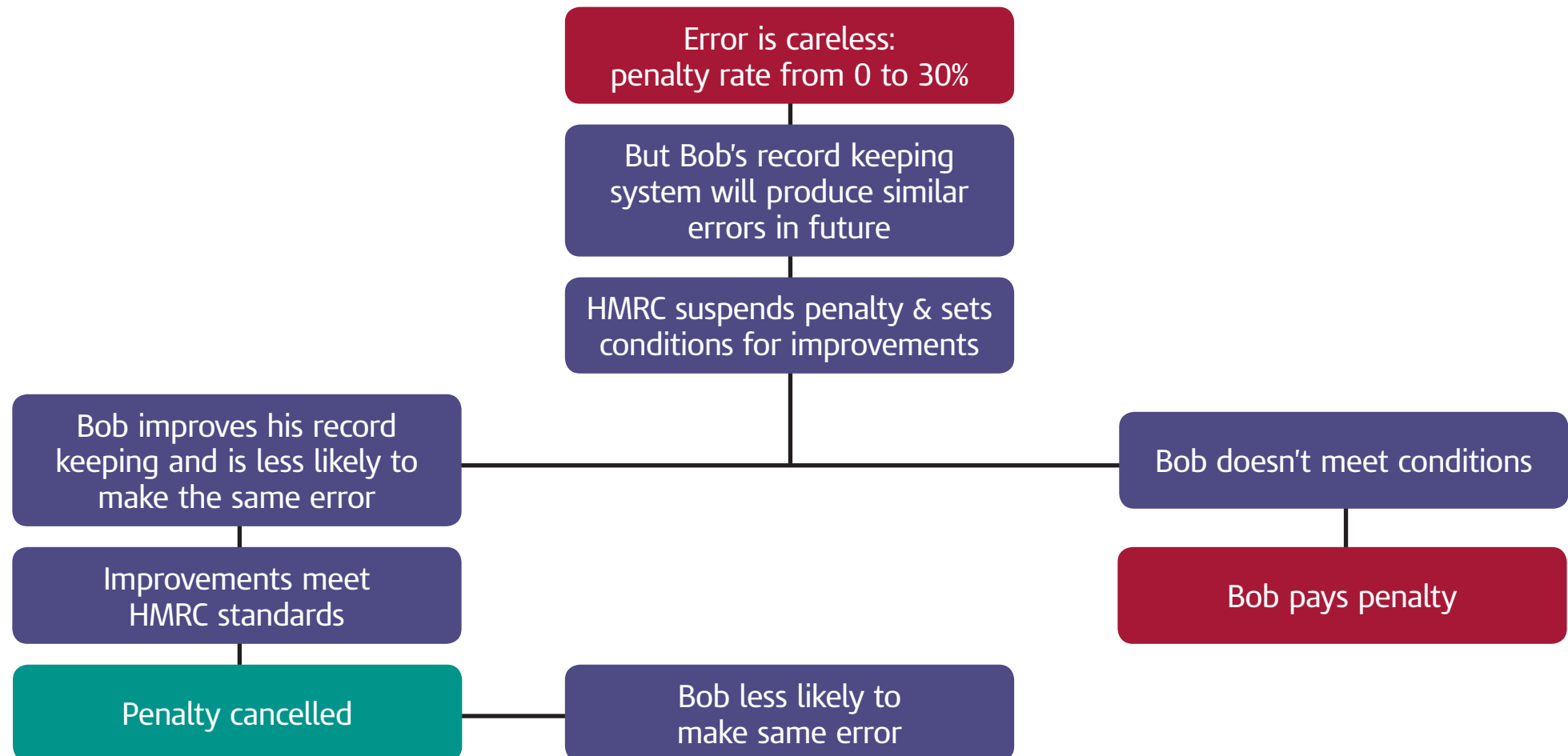
# How it works - a penalty is due



# How you can reduce a penalty

- If you tell HMRC about your error without being asked
- Help HMRC to work out what extra tax is due
- Give HMRC access to your records to check their figures

# How it works - suspended penalty



# Suspended penalties - giving you time to improve your systems

- HMRC can only suspend penalties for careless errors, not deliberate ones
- HMRC will agree suspension conditions with you
- It is an incentive to make improvements and avoid future penalties
- You can be given up to two years to make the required changes
- If met, the penalty will be cancelled
- You must pay the penalty if the conditions are not met, or you incur another penalty in the period

# Failure to notify penalty

Can be applied to most taxes including

- Betting and Gaming duties
- Capital Gains Tax
- Corporation Tax
- Environmental Taxes
- Excise Duties
- Income Tax
- Insurance Premium Tax
- Class 4 National Insurance contributions
- VAT

# When is it applied?

You must inform HMRC about changes in your tax situation such as:

- Any change in circumstances that makes you liable to pay tax
- Your turnover reaches the point where you must register with HMRC for VAT
- You start a type of business that must register with HMRC for Excise Duty

# The same principles

Like the inaccuracy penalty

- The penalty is a percentage of the potential lost revenue
- Your behaviour determines the penalty range
- You can request a review or appeal against a penalty

Unlike the inaccuracy penalty

- 'Reasonable care' is not considered
- HMRC may accept a reasonable excuse for failing to notify them in time in which case there is no penalty

# Reasonable Excuse

A reasonable excuse must be an unexpected event and you must inform HMRC, and pay any tax due, as soon as it ends

HMRC will not normally accept

- The tax return is too difficult
- Pressure of work
- Lack of information
- HMRC did not remind me
- Ignorance of basic law

# VAT and Excise wrongdoing penalties

HMRC may charge a penalty if someone:

- Issues an invoice which includes VAT which the person is not entitled to charge
- Handles goods on which excise duty has not been paid or deferred
- Uses a product in a way that means more Excise Duty should have been paid
- Supplies a product at a lower rate of Excise Duty knowing that it will be used in a way that attracts a higher rate of Excise Duty

# The same principles

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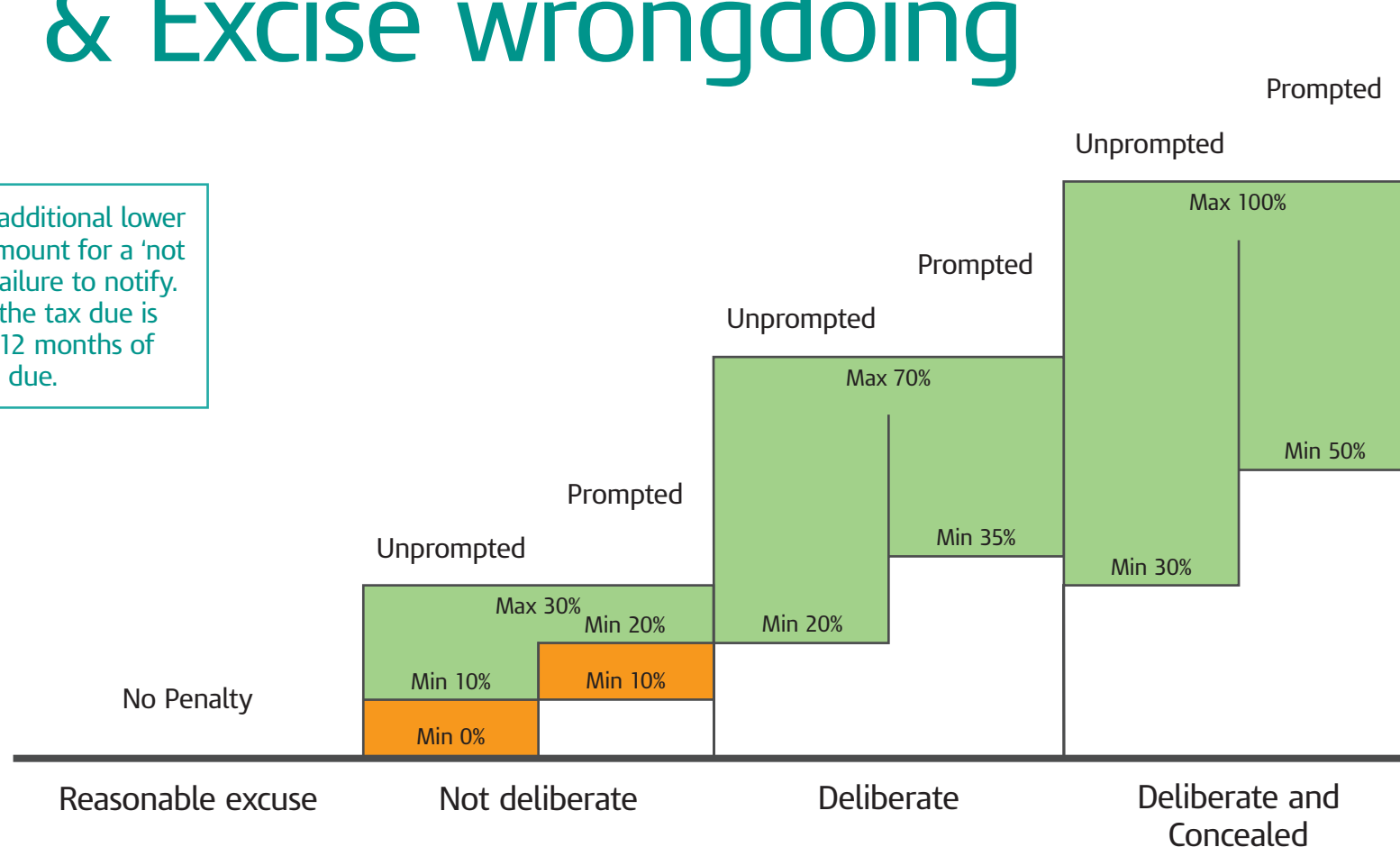
The potential lost revenue in these penalties could be the amount of VAT shown on an invoice, or the difference between the Excise Duty paid and the Excise Duty that should have been paid

Existing civil and criminal sanctions are still in place for VAT and Excise misuse and may still be used

# Penalty rates

## Penalties for failure to notify and VAT & Excise wrongdoing

There is an additional lower minimum amount for a 'not deliberate' failure to notify. It applies if the tax due is paid within 12 months of when it was due.



# Your checklist for avoiding penalties

Have you...	Done
Checked which taxes you need to pay?	Y/N
Set up a good record keeping system which you regularly update?	Y/N
Notified HMRC about a new tax liability in time?	Y/N
Checked when your Tax Return is due and sent it in on time?	Y/N
Told HMRC if you have discovered an error after you have sent in your Tax Return?	Y/N

# Assistance with your tax

## HMRC penalties guidance

- Web: [www.businesslink.gov.uk/taxhelp](http://www.businesslink.gov.uk/taxhelp)
- Phone the helpline number on your Tax Return or letter that HMRC have sent you

Thank you  
Any questions

Information provided by HM Revenue & Customs, October 2010

The information provided in this presentation was correct at the time of going to publication.  
Always check the HMRC website for the latest information on [www.hmrc.gov.uk](http://www.hmrc.gov.uk)