

# Compliance checks – Information about penalties

This factsheet gives you detailed information about penalties we may charge as a result of a compliance check. It follows on from the factsheet CC/FS6 *Compliance checks – What happens when we find something wrong*.

This factsheet tells you:

- what to do if you think you have made an error in a tax return or other document
- what happens when we find out about an error
- what the different types of error are
- how we work out the amount of a penalty and how you can reduce it
- what to do if you disagree with any decisions we make
- when different rules apply.

Please also read factsheet CC/FS9 *Human Rights Act*, which tells you about your rights under the European Convention on Human Rights. You can download this from [www.hmrc.gov.uk/compliance/cc-fs9.pdf](http://www.hmrc.gov.uk/compliance/cc-fs9.pdf)

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## What to do if you think you have made an error

If you think you have made an error in a tax return or other document, please tell us.

If you tell us about an error before we find it ourselves, we may be able to reduce any penalty we charge. You may not even have to pay a penalty at all.

We may reduce your penalty even if you do not know the full details of the error when you tell us about it.

If we decide not to reduce a penalty, you can appeal against our decision. For more information about this, please read 'What to do if you disagree' on page 4.

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## What happens when we find out about an error

When we find out about an error, we work with you to establish what caused it and what type of error it is.

If we decide that you took reasonable care but still made an error, we will not charge you a penalty.

We will charge a penalty if we decide the error was:

- careless
- deliberate, or
- deliberate and concealed.

The type of error will affect the amount of the penalty.

If you disagree with our decision about the type of error you made, you can appeal. For more information about this, please read 'What to do if you disagree' on page 4.

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## What the different types of error are

### Errors made even though you took reasonable care

Everyone has a responsibility to take reasonable care over their tax affairs. If you took reasonable care, but still made an error, we will not charge a penalty. Some of the ways you can take reasonable care are:

- keeping enough records to make accurate tax returns
- keeping those records safe
- asking us if you are not sure about anything

### If you need help

If you have any questions, please contact the office that wrote to you. You can find a list of our helplines on the HMRC website and click on 'Contact us' or use the numbers listed in your local telephone directory under HM Revenue & Customs.

### Which periods these penalty rules apply to

Different tax periods have different rules. The penalty rules in this factsheet CC/FS7 *Information about penalties* apply to tax returns or documents due to be sent to us on or after 1 April 2009. The tax returns or documents need to relate to a tax period beginning on or after 1 April 2008.

### Which taxes these penalty rules apply to

The penalty rules in this factsheet apply to:

- Capital Gains Tax
- Construction Industry Schemes
- Corporation Tax
- Income Tax (including Self Assessment)
- National Insurance contributions (except for class 1A)
- Pay As You Earn (PAYE)
- VAT.

If you need information on penalty rules for other taxes and earlier tax periods, please speak to the officer dealing with your compliance check.

### How you can find more information

You can find more information about taking reasonable care, and about the different types of error, by going to [www.hmrc.gov.uk](http://www.hmrc.gov.uk) and putting these codes in the search box:

Reasonable care: CH81120 or CH81131  
Careless errors: CH81140 or CH81145  
Deliberate errors: CH81150 or CH81151  
Deliberate and concealed errors: CH81160 or CH81161

- giving us all the information we need when we ask
- following any advice we give you.

What reasonable care means depends on each customer's abilities and circumstances.

### Careless errors

If you made an error and we think you did not take reasonable care to get things right, we will treat the error as careless. We may then charge you a penalty.

If we decide to charge you a penalty for a careless error, we may suspend it.

For more information about this, please read the factsheet 'Suspending penalties for careless errors' (CC/FS10). You can get this factsheet by:

- downloading it from our website at [www.hmrc.gov.uk/compliance/cc-fs10.pdf](http://www.hmrc.gov.uk/compliance/cc-fs10.pdf)
- calling our orderline on **0845 900 0404**.

### Deliberate errors

If you knowingly give us an inaccurate return or document, we will treat the error as deliberate. We will then charge you a penalty. Penalties for deliberate errors can be larger than penalties for careless errors. Examples of deliberate errors include:

- deliberately overstating your business expenses
- deliberately understating your income
- deliberately paying wages without accounting for Pay As You Earn income tax.

### Deliberate and concealed errors

If you knowingly give us an inaccurate return or document and take active steps to hide the inaccuracy from us, either before or after you sent it, we will treat the error as deliberate and concealed. Deliberate and concealed errors are the most serious type of error and lead to the largest penalties.

### Not telling us about an under-assessment

If we ask you to complete a tax return and you do not, we send you an estimate of how much tax you need to pay - this is called an assessment. An under-assessment is an assessment that is too low.

If our assessment is too low and you do not tell us this within 30 days, we may charge you a penalty.

## How you can reduce any penalty we charge

If you have made an error that leads to a penalty, there are three ways you can reduce it.

1. Tell us everything you can about the error.
2. Help us to work out the size of the error.
3. Give us access to records that help us correct the error.

The amount of help you are able to give us and the records we need to see will depend on the error. Sometimes we may not need any extra help or records to correct the error. The size of the reduction depends on the quality of your cooperation. We will reduce the penalty if we agree you have done everything you can for us.

### 1. Telling us everything you can about the error

For example, you could:

- admit that you have made an error
- tell us as much as you can about it, and
- tell us how and why it happened.

### Don't stop making returns and payments

During the compliance check, please carry on making returns and payments when they are due.

### Benefits and credits

If you are receiving any benefits, fees or grants that are based on your income, you may need to let the organisation that is paying you know if your income changes as a result of this check.

### Access for everybody

Please let us know if you might need extra help to deal with this check, for example, if:

- English is not your first language
- you would like us to use a certain format to communicate with you
- you would like us to visit you at home because it is difficult for you to get to an Enquiry Centre.

For details, please visit [www.hmrc.gov.uk/enq](http://www.hmrc.gov.uk/enq) or contact the officer dealing with your check to get further help.

### What if you are unhappy with our service

If you are unhappy with our service, please contact the person or office you have been dealing with. They will try to put things right. If you are still unhappy, they will give you information about how to make a complaint.

### This factsheet is one of a series:

- CC/FS1 *General information*
- CC/FS2 *Requests for information and documents*
- CC/FS3 *Visits - Pre-arranged*
- CC/FS4 *Visits - Unannounced*
- CC/FS5 *Visits - Unannounced - Tribunal approved*
- CC/FS6 *What happens when we find something wrong*
- CC/FS8(T) *Help and advice*
- CC/FS9 *Human Rights Act*
- CC/FS10 *Suspending penalties for careless errors*

These can be found at [www.hmrc.gov.uk/about/new-compliance-checks.htm](http://www.hmrc.gov.uk/about/new-compliance-checks.htm)

HMRC1 *HM Revenue & Customs decisions - what to do if you disagree*

You can get this factsheet at [www.hmrc.gov.uk/factsheets/hmrc1.pdf](http://www.hmrc.gov.uk/factsheets/hmrc1.pdf) or by phoning the Revenue and Customs orderline on **0845 900 0404**.

## 2. Helping us to work out the size of the error

For example, you could:

- check your records to identify any expenses you have claimed, which are not allowable
- use your private records to identify sales that were left out of your business records
- work with us to check evidence of income and expenditure – for example, invoices, bank statements and credit card bills.

You need to help us at every stage of our check, and with all the periods or tax years it covers.

## 3. Giving us access to your records

For example, you could show us documents we may not know about, as well as letting us see any we ask for.

## How we work out the amount of a penalty

The amount of a penalty is a percentage of the extra tax we think you need to pay.

This amount falls into one of six ranges. The range it falls into depends on the type of error you made and when you told us about it. If you told us about an error:

- before we found it ourselves, we call it an 'unprompted disclosure'
- after we found it, or when you knew we were about to, we call it a 'prompted disclosure'.

The table below shows the six penalty ranges.

100%		Max 100%		Max 100%	
		Deliberate & concealed Unprompted		Deliberate & concealed Prompted	
		Max 70%		Max 70%	
		Deliberate Unprompted		Deliberate Prompted	
		Min 35%		Min 50%	
		Min 30%			
		Max 30%		Max 30%	
		Careless Unprompted		Careless Prompted	
		Min 15%		Min 20%	
0%		Min 0%			

The exact amount we charge within a range depends on:

- how much you have told us about the error
- how much help you have given us to work out the size of the error
- how much access you have given us to your records.

If you do not agree with the amount of the penalty, you can appeal. For more information about this, please read 'What to do if you disagree' on page 4.

## What happens if we charge you a penalty

We will send you a calculation of the amount you need to pay and will try to agree this amount with you.

We will then either:

- send you a penalty assessment notice, or
- ask you to enter a contract with us to pay the tax, any interest on the tax, and the penalty.

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## What to do if you disagree

You can appeal against:

- a decision to charge a penalty
- the amount of the penalty.

If we make a decision that you can appeal against, we will write to you to explain the decision and tell you what you can do if you disagree. You can:

- send new information to the officer you have been dealing with
- tell the officer you have been dealing with why you disagree with the decision
- ask for a different officer to review your case
- ask for an independent tribunal to hear your appeal.

You need to do this within the time shown on the notice.

For more information about how to appeal, please read factsheet HMRC1 *HMRC decisions - what to do if you disagree*. You can get this factsheet by:

- downloading it from our website at [www.hmrc.gov.uk/factsheets/hmrc1.pdf](http://www.hmrc.gov.uk/factsheets/hmrc1.pdf)
- calling our orderline on **0845 900 0404**.

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## When different rules apply

There are different rules for penalties where there are group relief, losses, repayments, or accounting timing issues resulting in delayed tax. Please see our manual from [www.hmrc.gov.uk/manuals/chmanual/CH82280](http://www.hmrc.gov.uk/manuals/chmanual/CH82280) onwards for more information.

These notes are for guidance only and reflect the position at the time of writing. They do not affect any right of appeal.

Customer Information Team  
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