

# Compliance checks – Penalties for errors in returns or documents

This factsheet gives you detailed information about the penalties we may charge as a result of errors in returns or documents. It follows on from the factsheet CC/FS6 *Compliance checks - What happens when we find something wrong*. Details of how you can get a copy are in the right hand panel of this factsheet.

This factsheet tells you:

- how to avoid a penalty
- what to do if you think you have made an error
- what happens when we find out about an error
- what the different types of errors are
- how we work out the amount of a penalty
- how you can reduce any penalty we charge
- how we charge a penalty
- how we can suspend a penalty
- what to do if you disagree
- when different rules apply
- when we may publish details about you.

## How to avoid a penalty

We will not charge a penalty if you took reasonable care to get things right but still made an error. Some of the ways you can show you took reasonable care include:

- keeping accurate records so that you can complete your tax records correctly.  
Please see [www.hmrc.gov.uk/about/new-standard-systems.htm](http://www.hmrc.gov.uk/about/new-standard-systems.htm) for further information on record keeping
- checking with an adviser or with us if you are not sure about anything.

## 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 documents, please tell us as soon as possible. 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 of this factsheet.

## What happens when we find out about an error

When we find out about an error, we work with you to find out 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 you a penalty if 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 of this factsheet.

### If you need help

If you have any questions about this check or difficulty in obtaining any information mentioned in this factsheet, please contact the officer that wrote to you.

### Which tax periods and taxes these penalty rules apply to

The penalty rules in this factsheet apply to tax returns or documents for all the taxes listed below which are:

- due to be sent to us on or after 1 April 2010 and
- relate to a tax period beginning on or after 1 April 2009.

They also apply to returns or documents for the taxes listed below, indicated by an asterisk (\*), which were:

- due to be sent to us on or after 1 April 2009 and
- relate to a period beginning on or after 1 April 2008.

The penalty rules in this factsheet apply to:

Aggregates Levy  
Air Passenger Duty  
Alcohol Duty  
Bingo Duty  
Capital Gains Tax\*  
Climate Change Levy  
Construction Industry Schemes\*  
Corporation Tax\*  
Excise duties (Holding and Movements)  
Gaming Duty  
Hydrocarbon Oils Duty  
Income Tax (including Self Assessment)\*  
Inheritance Tax  
Insurance Premium Tax  
Landfill Tax  
Lottery Duty  
National Insurance Classes 1 and 4\*  
National Insurance Class 1A (only for P11D(b) returns for 2010-11 and later years)  
Pay As You Earn (PAYE)\*  
Petroleum Revenue Tax  
Pool Betting Duty  
Remote Gaming Duty  
Stamp Duty Land Tax  
Stamp Duty Reserve Tax  
Tobacco Duty  
VAT \*

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

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## What the different types of errors 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
- 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 *CC/FS10 Compliance checks - Suspending penalties for careless errors in returns or documents*. Details of how you can get a copy are in the right hand panel of this factsheet.

### 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 and National Insurance contributions.

If we charge you a penalty for a deliberate error we may also need to monitor your tax affairs more closely. We have an enhanced monitoring programme called Managing Deliberate Defaulters. You can find more information about this in factsheet *CC/FS14 Managing Deliberate Defaulters*. Details of how you can get a copy are in the right hand panel of this factsheet.

### 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 the return or document, 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 when we find out that it was too low.

Under-assessments have their own penalty range. The maximum penalty is 30% of the difference between the estimated and the correct amount of tax. The amount of help you give us to put the assessment right and whether or not you were prompted to tell us about it, will determine where the penalty falls within the 0 to 30% range.

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## How we work out the amount of a penalty

The penalty is a percentage of what we call the 'potential lost revenue'. Potential lost revenue is the amount that arises as a result of correcting an error in a return or document, an under-assessment, an incorrect repayment or an incorrect claim. The officer dealing with the check will explain how this is calculated. The penalty percentage 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.

## How you can find more information

You can find more information about taking reasonable care, and about the different types of errors, by going to [www.hmrc.gov.uk](http://www.hmrc.gov.uk) and looking for the following codes within the Search facility.

### Reasonable care

Enter code CH81120 or CH81131.

### Careless errors

Enter code CH81140 or CH81145.

### Deliberate errors

Enter code CH81150 or CH81151.

### Deliberate and concealed errors

Enter code CH81160 or CH81161.

## Don't stop sending returns or making payments

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

## Benefits, fees, grants and tax credits

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

If you are receiving tax credits and your income changes as a result of this check, you must tell the Tax Credit Office. You can contact the helpline on **0845 300 3900**. For customers who are deaf, hearing or speech impaired, please phone **0845 300 3909 (textphone)**.

Or you can write, marking your envelope 'Change of circumstances' to: Tax Credit Office

Preston  
PR1 0SB

## Customers with particular needs

If you need extra help to deal with this check, please let the officer that wrote to you know. For example, if:

- English is not your first language
- you would like us to use a certain format to communicate with you, for example, Braille or Text Relay. If you use Text Relay by textphone dial **18001** + number, by phone dial **18002** + number
- you would like us to visit you at home because it is difficult for you to get to one of our offices.

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 had any reason to believe we were about to find it, we call it a 'prompted disclosure'.

The following table 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 20%		Min 35%	
		Max 30%		Max 30%	
		Careless Unprompted		Careless Prompted	
		Min 0%		Min 15%	
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 of this factsheet.

## 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 'telling, helping and giving', which is explained below. We will reduce the penalty by the maximum amount if we agree you have done everything you can for us.

### 1. Tell 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.

### 2. Help 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. Give us access to records that help us correct the error

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

## 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 tell you how to complain. Our factsheet *C/FS Complaints*, also tells you how to make a complaint. You can get a copy of this from our website. Go to [www.hmrc.gov.uk/factsheets/complaints-factsheet.pdf](http://www.hmrc.gov.uk/factsheets/complaints-factsheet.pdf) You can also go to our website and under *Quick links* select *Complaints & appeals*.

If you prefer, you can write to:

Complaints Central Clearing  
Team Manager  
Ground Floor  
1 Munroe Court  
White Rose Office Park  
Leeds  
LS11 0EA

You will need to tell us the reference number and the address of the office that last wrote to you. Say exactly what you think has gone wrong and what you think we should do to put it right.

## This factsheet is one of a series

The factsheets marked with an asterisk (\*) do not apply to Excise Duties.  
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/FS7 *Penalties for errors in returns or documents*

CC/FS8(T) *Help and advice* (This relates to a specific type of check. We will tell you if it applies to you.)

CC/FS9 *Human Rights Act*

CC/FS10 *Suspending penalties for careless errors in returns or documents*

CC/FS11 *Penalties for failure to notify*

CC/FS12 *Penalties for VAT and*

*Excise wrongdoing*

CC/FS13 *Publishing details of deliberate defaulters*

CC/FS14 *Managing Deliberate Defaulters*

CC/FS15 *Self Assessment and old penalty rules*

You can find these factsheets on our website at

[www.hmrc.gov.uk/compliance/factsheets.htm](http://www.hmrc.gov.uk/compliance/factsheets.htm)

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## How we charge a penalty

We will discuss your tax with you to work out the correct amount you need to pay, including any interest. We will also talk to you about whether any penalty may be due and the amount. We will then either:

- send you a penalty assessment notice so that you can understand what has happened and how we have worked out the amount
- tell you what has happened and how we have worked out the amount. We will then invite you to enter a contract with us to pay the tax, interest and penalty.

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## How we can suspend a penalty

If the penalty is for a careless error we may agree to suspend it for up to two years. We will set conditions to help you stop making similar errors again. If you meet the conditions and you do not make any other careless or deliberate errors during this time, we will cancel the penalty at the end of the suspension period.

For more information please read factsheet CC/FS10 *Compliance checks - Suspending penalties for careless errors in returns or documents*. Details of how you can get a copy are in the right hand panel of this factsheet.

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## What to do if you disagree

When we make a decision that you can appeal against, we will write to you to explain the decision and tell you what you need to do if you disagree. You will usually have three options. Within 30 days you can:

- send new information or arguments to the officer you have been dealing with
- have your case reviewed by a different HMRC officer
- arrange for your case to be heard by an independent tribunal.

You can find more about this in factsheet HMRC1 *HM Revenue & Customs decisions - what to do if you disagree*. Details of how you can get a copy are in the right hand panel of this factsheet.

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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 ask the officer dealing with the check or see our Compliance Handbook from [www.hmrc.gov.uk/manuals/chmanual/CH82280.htm](http://www.hmrc.gov.uk/manuals/chmanual/CH82280.htm) onwards for more information.

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## When we may publish details about you

We may publish the name, address and other information about those who deliberately evade tax. We may be able to publish information about you if:

- we charge you a penalty for a deliberate, or a deliberate and concealed, inaccuracy, and
- the tax on which the penalty (or penalties if there is more than one) is based is more than £25,000.

If you have deliberately tried to reduce your tax bill by sending us an inaccurate return or document, we will not publish your details if we can reduce the penalty by the maximum amount. This means that you must earn the maximum reduction for 'telling, helping and giving'. For more information on the penalty reduction, please read 'How you can reduce any penalty we charge' on page 3 of this factsheet.

You may have to pay a penalty for more than one deliberate, or deliberate and concealed, inaccuracy. We cannot publish your details if you earn the maximum reduction for 'telling, helping and giving' for **each** of these penalties.

If you appeal and a review or an appeal hearing changes our figures, we will look again at whether you meet the conditions for publishing your details. We will tell you the result.

If you prefer, you can ask the officer dealing with the check to send any of them to you.

You can get factsheet HMRC1 *HM Revenue & Customs decisions - what to do if you disagree* from our website. Go to [www.hmrc.gov.uk/factsheets/hmrc1.pdf](http://www.hmrc.gov.uk/factsheets/hmrc1.pdf)

If you prefer, you can get one from our orderline by phoning **0845 900 0404**.

### Your adviser

If you want to appoint an adviser to act on your behalf, you will need to send us a form 64-8 *Authorising your agent*.

You can get one of these from our website. Go to [www.hmrc.gov.uk](http://www.hmrc.gov.uk) and look for 64-8 within the *Search* facility.

If you prefer, you can get one by phoning the officer that wrote to you, or by phoning our orderline on **0845 900 0404**.

You can find more information about publication in factsheet CC/FS13 *Compliance checks - Publishing details of deliberate defaulters*. That factsheet explains the conditions for publication. Details of how you can get a copy are in the right hand panel of this factsheet.

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## Your principal rights and obligations

- You have the right to be represented during our check. You can appoint anyone to act on your behalf. This includes professional advisers, friends, and so on.
- You have the right to consult your adviser. We will allow a reasonable amount of time for you to do so.
- We will protect information we obtain, receive or hold about you.
- We can only ask you for what is reasonable for us to carry out our check. What is reasonable will depend on the circumstances of the check.
- You have the right to complain if you believe that we have not treated you fairly.
- You have an obligation to take care to get things right.
- If you have an adviser, you must still take reasonable care to make sure that any returns, documents or details they send us on your behalf are correct.

Please also read factsheet CC/FS9 *Human Rights Act*, which tells you about your rights under the European Convention on Human Rights when we are considering penalties. Details of how you can get a copy are in the right hand panel of this factsheet.

*Your Charter* explains what you can expect from us and what we expect from you. For more information go to [www.hmrc.gov.uk/charter](http://www.hmrc.gov.uk/charter)

These notes are for guidance only and reflect the position at the time of writing. They do not affect any rights of appeal. Any subsequent amendments to these notes can be found at [www.hmrc.gov.uk](http://www.hmrc.gov.uk)

Customer Information Team  
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