

New penalties for errors in claims for VAT refunds

The UK is introducing a new system of penalties for errors in tax returns, including VAT refund claims.

You could be charged a penalty if you don't take reasonable care to make sure your claim is correct. This guide will help you understand the law and what you can do to avoid a penalty.

Why do we need penalties?

Most people take care to fill in their tax returns and claims correctly. We want to encourage that and help them get it right.

We use penalties to stop people who don't take care from gaining an unfair advantage.

When are penalties charged?

We can charge financial penalties if you make an error in your claim which means you overstate the amount of refund you are due.

The new penalties apply to VAT claims made under the EC 13th Directive (86/560/EEC) by businesses based outside the European Union, for years commencing on or after 1 July 2008.

And they also apply to VAT claims made under the EC 8th Directive made by businesses based in other European Union member States, for years commencing on or after 1 January 2009.

How to take reasonable care

If you take reasonable care to get it right, we will not charge a penalty if you make an error. Some of the ways you can show you took reasonable care are:

- Keeping correctly completed invoices, vouchers and receipts to support your claim and sending these to us with your claim.
- Ensuring that you have, and provide, an up-to-date certificate of status or of business activity.
- Checking what goods and services you can claim VAT on from the UK and, when you don't understand something, seeking advice from us or an agent familiar with UK refund rules and procedures.
- Telling us promptly about any mistake you discover after you send us a claim.

If you don't take reasonable care, we can penalise any errors. The penalties will be higher if the errors are deliberate.

How to reduce a penalty

We can substantially reduce any penalty due if you:

- tell us about any errors before we ask you about them;
- help us work out if you have claimed too much; and
- allow us to check your figures.

What are the penalties?

The penalty is a percentage of the amount that has been overclaimed.

We will calculate the correct amount of money we are refunding you, and will deduct any penalty.

The penalty rate depends on why you made the error. The less serious the reason, the smaller the penalty will be.



How will I know if I have to pay a penalty?

We will discuss your claim with you or your agent to work out the correct amount and any penalty that may be due, before we send a penalty notice. That way you can understand what has happened and why we are doing this.

If you don't agree, you can appeal against the penalty.

Where can I get more help?

You can find more information on penalties for errors, including what other UK taxes it applies to, at www.hmrc.gov.uk/about/new-penalties/index.htm.