

Take care to avoid a penalty

You could be charged a penalty if you don't take reasonable care with your tax affairs. This guide will help you understand what you can do to avoid a penalty.

We know most people take care to declare and pay the right amount of tax. We use penalties to stop people who don't take care from gaining an unfair advantage. After listening to our customers, accountants and others we are replacing a wide variety of penalties for inaccurate tax returns with one system across almost all our taxes.

When does it apply?

We can charge a penalty if your return or other tax document is inaccurate and as a result you don't pay enough tax, or if you don't tell us a tax assessment we have sent to you is too low.

The new penalty system applies to documents with:

return periods from 1 April 2008 where the documents are due to be filed from 1 April 2009 for:

- Capital Gains Tax
- Construction Industry Scheme
- Corporation Tax
- Income Tax
- National Insurance contributions
- PAYE
- VAT

return periods from 1 April 2009 where the documents are due to be filed from 1 April 2010 for:

- Environmental Taxes
- Excise Duties
- Inheritance Tax
- Insurance Premium Tax
- Stamp Duties

How does it work?

You will have to pay the additional tax and any interest that is due. If we charge a penalty it will be a percentage of the additional tax. The penalty rate now depends on the type of inaccuracy. The more serious the reason for the inaccuracy the higher the penalty can be. We will not charge a penalty if you took 'reasonable care' to get things right but still made a mistake.

If you send us an incorrect document we will charge a penalty if the inaccuracy:

- is because you failed to take reasonable care - you were careless
- is deliberate - you intentionally send us an incorrect document
- is deliberate and concealed - you intentionally send us an incorrect document and try to conceal the inaccuracy

What is reasonable care?

'Reasonable care' varies according to the person, their circumstances and their abilities. But we expect everyone to make and keep sufficient records for them to provide a complete and accurate return, and to update them regularly.

Some of the ways you can show you took reasonable care, and avoid a penalty include:

- keeping accurate records to make sure your tax returns are correct - see the record keeping guidance at www.hmrc.gov.uk/about/new-standard-systems.htm
- checking what the correct position is when you don't understand something

Please tell us promptly about any error you discover in a document after you have sent it. Otherwise mistakes you've made, despite taking reasonable care, will be treated as careless inaccuracies and penalised.

Remember, if you use an agent such as an accountant, it is still your responsibility to make sure that the return they produce on your behalf is correct.

When will we reduce a penalty?

We can reduce a penalty if you tell us about an inaccuracy, especially if this is unprompted. A disclosure is unprompted if when you tell us about the inaccuracy you have no reason to believe we have discovered, or are about to discover it. Everything else is a prompted disclosure.

The table below shows the range of penalty percentages that can be applied to an inaccuracy.

No Penalty Reasonable care No Penalty	Max 30%	Max 30%	Max 70%	Max 70%	Max 100%	Max 100%
	Careless Unprompted	Careless Prompted	Deliberate Unprompted	Deliberate Prompted	Deliberate & Concealed Unprompted	Deliberate & Concealed Prompted
	Min 0%	Min 15%	Min 20%	Min 35%	Min 30%	Min 50%

We can reduce a penalty from the maximum if you:

- tell us about any inaccuracies
- help us work out what extra tax is due
- give us access to check your figures

Can we suspend penalties?

We may suspend a penalty for a careless inaccuracy for up to two years. We will set conditions for you to improve your systems to stop the same mistakes happening again.

If at the end of the suspension period you meet all the conditions, we will cancel the penalty. We cannot suspend penalties charged because of deliberate inaccuracies.

How will I know if I have a penalty?

We will discuss your tax with you to work out the correct amount. We will talk to you about any penalty that may be due before we send a penalty notice so you can understand what has happened and why we are doing this.

How can I appeal against a penalty?

You can choose to have the penalty reviewed within Revenue and Customs or can appeal against it to an independent tribunal. See our factsheet **HMRC 1** at www.hmrc.gov.uk/factsheets/hmrc1.pdf.

What changes in 2010?

We will be able to charge a penalty on a third party from 1 April 2010.

We can only do this if a third party deliberately withholds information or deliberately supplies false information to a taxpayer who has to complete a return. We have to demonstrate that the third party intended to cause the document to be inaccurate.

Where can I get more help?

More information on these penalties is at www.hmrc.gov.uk/about/new-penalties.

If you prefer to speak to us about your tax, please phone the helpline number on the tax return or letter we have sent you.