

TIP OF THE MONTH - TO ERR IS HUMAN, AND THAT IS FINE. TO ERR IN TAX IS A FINE



Mistakes happen, or as one wag put it “accidents cause people”. Mistakes on tax returns cause penalties, and the Revenue make a lot of money from this.

It isn't just the fines, of course, it is the investigation (which is why we suggest fee protection that takes time and more money. If HMRC misstating tax due is a certainly will charge a errors are deliberate, taxpayer took still made one, that is a penalty.



decides that understating income of “careless error” they can and almost penalty. Their default position is that but if there is evidence to show that the “reasonable care” to avoid an error but genuine mistake and there is no

Keeping poor records weaken any defence, and of course errors by HMRC don't necessarily let you off the hook.



Under the tax system there are now 4 levels of guilt:

1. A genuine mistake, after taking reasonable care (no penalty)
2. Careless action, or lack of reasonable care (a penalty from zero to 30% of the extra tax)
3. A deliberate error, but not concealed (20% - 70%)
4. A deliberate and concealed error (30% - 70%)

From the “bands” above, it is apparent that disclosure by the taxpayer and “co-operation” such as working out the tax due yourself, or making records readily and easily available can mitigate the penalty levels.



It might be argued that case 4 should be (at least) 100%, but in the other categories we find ourselves tip-toeing through the cow pasture of reasonableness. The taxman's interpretation of “reasonable” all too often differs from the taxpayer's. Many professionals, including McLean Reid, feel that as HMRC comes under more pressure to collect yet more tax and to reduce “avoidance” they are increasingly tempted to use the “C Word” and go for “careless” penalties. This seems to be supported by the record backlog of cases in the Tax Tribunals.

Keeping taxpayers out of trouble is our job, but please do take care!