CIOT issues error correction warning

Briefings

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Legislation designed to strengthen the rules for correcting tax errors needs stronger safeguards, the Institute says.

CIOT has warned that draft legislation intended to modernise the correction of tax errors needs stronger safeguards if it is to work fairly and effectively. Responding to HMRC's summer consultation, CIOT supported the aim of encouraging taxpayers to put mistakes right promptly. However, it said that parts of the proposed rules may not work as intended and could leave uncertainty about when the new duty to correct would arise.

The draft legislation would require taxpayers to take reasonable steps to correct inaccuracies in returns and other documents once they become aware of them. It would also allow HMRC to issue Customer Correction Notices, which would require taxpayers to review their affairs and either correct an identified inaccuracy or explain why no correction is needed.

CIOT is concerned that the legislation does not clearly define when a taxpayer becomes aware of an error, or how certain they must be before the obligation applies. It also wants more clarity on what would count as ‘reasonable steps’, including notification processes and timescales.

Ellen Milner, Director of Public Policy at CIOT, said: ‘We support HMRC’s objective of encouraging taxpayers to correct mistakes promptly. However, taxpayers need greater certainty about when the new duty to correct arises and what actions they are expected to take. Awareness of a potential issue should not necessarily amount to knowledge that an error has been made, especially where there is genuine technical uncertainty.’

She warned that the proposals could have significant consequences, with taxpayers who had taken reasonable care potentially exposed to deliberate behaviour penalties and a 20-year assessment time limit if HMRC believed an error should have been disclosed.

CIOT also raised concerns about the potential burden of Customer Correction Notices if they are not used carefully, particularly in more complex cases, and said the commencement provisions should make clear whether the new duty could apply to historic errors still within HMRC’s assessment time limits, and how the rules would interact with existing compliance checks.