

HMRC DISCLOSURES & PANDORA PAPERS

There has been a significant surge in the issuance of prompted disclosure letters by HMRC in recent months. The primary objective is to prompt taxpayers with undeclared income and gains to regularize their tax affairs. While these disclosures can encompass any undisclosed tax liabilities, there's been a notable uptick in cases involving unreported rental income, particularly from other jurisdictions like the Republic of Ireland. This surge can be attributed to Tax Information Exchange Agreements between the UK and other nations, facilitating HMRC's access to information from foreign tax authorities regarding specific taxpayers and businesses.

Opting for a prompted disclosure provides an avenue to rectify tax discrepancies. However, it's preferable to take the proactive step of an unprompted disclosure by approaching HMRC voluntarily before receiving the dreaded letter in the post. Opting for an unprompted disclosure typically results in more favourable outcomes, including reduced penalties compared to prompted disclosures.

HMRC offers digital disclosure facilities for individuals, companies, and trustees to make disclosures. The number of years to disclose depends on the circumstances leading to the error and its nature.

Various sources of income, such as dividends, bank interest, capital gains tax, and income from property or land rental, can be disclosed.

The table below outlines the penalties for both 'unprompted' and 'prompted' disclosures. Regardless of the type, making a disclosure brings your UK tax affairs up to date, providing peace of mind and potentially reducing the likelihood of being publicly named by HMRC if penalties are imposed for deliberate errors.

Moreover, in light of the recent Pandora Papers revelations, HMRC has intensified its efforts. They are now sending letters to individuals identified in the Pandora Papers, offering them the opportunity to disclose any undisclosed offshore income or assets. Failure to respond to such letters may result in penalties of up to 200% of the tax due. Therefore, it's crucial for those contacted by HMRC in connection with the Pandora Papers to consider their options and seek advice if needed.

If you're considering making a disclosure or have received a letter from HMRC regarding undisclosed income or assets, please reach out to a member of our Tax Team for guidance and assistance.

Type of behaviour	Unprompted disclosure	Prompted disclosure
Reasonable care	No penalty	No penalty
Careless	0% to 30%	15% to 30%
Deliberate	20% to 70%	35% to 70%
Deliberate and concealed	30% to 100%	50% to 100%