

**Draft Finance Bill 2026-27: Inquiry
Response from the Low Incomes Tax Reform Group (LITRG)**

1 Executive Summary

- 1.1 The Low Incomes Tax Reform Group (LITRG), part of the Chartered Institute of Taxation (CIOT), welcomes the opportunity to respond to the call for evidence published by the Finance Bill Sub-Committee on the draft Finance Bill 2026-27. Our response focuses on questions one to eight of the call for evidence.
- 1.2 We submitted responses to the consultation on draft legislation: Modernising the correction of errors¹ and the consultation on the Proposed offence for reckless untrue statements². These may be of interest to the Sub-Committee.
- 1.3 To enable both elements of the measure to modernise the correction of errors to operate effectively, HMRC will need to undertake a significant programme of awareness-raising. They will also need to ensure there is clear, accessible guidance and clear processes in place to support taxpayers.
- 1.4 We think the general obligation to take corrective action as drafted would make it difficult for taxpayers to defend their position. We think the draft legislation for customer correction notices omits some key taxpayer safeguards around timeframes.
- 1.5 The proposed sanctions for non-compliance appear stronger in respect of the general obligation to take corrective action than customer correction notices. Adjusting the proposed sanctions could create stronger incentives for taxpayers who have made non-deliberate errors to come forward.
- 1.6 There are a number of areas that require judgement under the general obligation to take corrective action. These will make it extremely difficult for unrepresented taxpayers to understand their obligations and how to meet them.
- 1.7 In addition to this measure, HMRC should be examining the end-to-end processes of high volume repayment agents.

¹ See <https://www.litrg.org.uk/submissions/draft-legislation-modernising-correction-errors-litrg-response>

² See <https://www.litrg.org.uk/submissions/proposed-offence-reckless-untrue-statements-direct-taxes-litrg-response>

- 1.8 It is unclear how customer correction notices fit in alongside revenue correction notices and One to Many campaigns. If HMRC pursue the proposal to create a criminal offence for making reckless untrue statements or declarations, we think it could deter taxpayers from coming forward under this measure.
- 1.9 There has been significant consultation on the measure to modernise the correction of errors. This is welcome, but some of our key concerns have not been addressed.
- 1.10 We are not convinced that the case has been made for the creation of a new criminal offence for making reckless untrue statements or declarations or that it would improve taxpayer compliance. We think that this offence has the potential to create anxiety among unrepresented taxpayers and could cause some to disengage with the tax system.
- 1.11 We believe that the most effective way of improving taxpayer compliance generally involves making it easier for taxpayers to comply (by providing services that are easy to use and access), using nudges and prompts to improve taxpayer awareness and understanding, acting in a timely manner and following the Charter standards.

2 Modernising the correction of errors

2.1 *Q.1 How do you expect this measure to operate in practice and what effects do you expect it to have, particularly on taxpayer compliance?*

- 2.1.1 The first element of this measure is a general obligation on taxpayers to take corrective action when they become aware of an inaccuracy within a return or document covered by Schedule 24 of Finance Act 2007. It will only apply to inaccuracies that result in an understatement of a tax liability, a false or inflated statement of a loss, or a false or inflated claim for a tax repayment. It will only apply where the taxpayer and/or HMRC are within existing statutory time limits for making amendments or issuing assessments.
- 2.1.2 It is unclear what constitutes becoming aware of an inaccuracy for the purposes of this measure. There needs to be clarity on this point in the legislation. There should be an objective test, so that it is possible for a taxpayer to prove that they were unaware of an inaccuracy and therefore not subject to the obligation to take corrective action. See our comments at paragraph 2.4.2.
- 2.1.3 Under the general obligation to take corrective action, a failure to do so will result in the behaviour related to the original error being viewed as deliberate, regardless of the original behaviour. This is a significant change from the current position where there is a presumption that an error is careless.³ It exposes the taxpayer to higher penalties and gives HMRC the ability to extend their assessment time limits;⁴ it also may expose the taxpayer to criminal charges. This is presumably intended to encourage taxpayers to take corrective action as required by the measure.

³ See current section 118(6) of Taxes Management Act 1970
<https://www.legislation.gov.uk/ukpga/1970/9/part/XI/crossheading/interpretation>.

⁴ In respect of income tax self assessment, the normal time limits for HMRC to issue assessments are within six years of the end of the tax year of assessment for careless behaviour and within twenty years of the end of the

- 2.1.4 Where a taxpayer makes an error despite taking reasonable care, later becomes aware of the error, but fails to take corrective action, HMRC will treat the error as deliberate. Given the current lack of clarity as to when and how a taxpayer can become aware of an error and what reasonable corrective action is, this seems harsh. This is compounded by the difficulties unrepresented taxpayers have in understanding their tax, determining their behaviour and whether an error is still within an assessment time limit and understanding how to make an amendment.
- 2.1.5 A significant population of taxpayers would be potentially subject to this measure, including low-income, unrepresented individuals. It will create a new statutory obligation, and it covers a wide range of returns and documents. For the measure to have an effect on taxpayer compliance, it is essential that taxpayers are aware of it. In theory, it could increase the number of taxpayers who take an interest in their tax affairs.
- 2.1.6 It will require a lot of awareness-raising and communications work. HMRC will need to provide clear, accessible guidance that covers key topics such as:
- what constitutes becoming aware of an inaccuracy,
 - reasonable corrective action,
 - relevant evidence,
 - assessment time limits, and
 - how to determine behaviour.

HMRC must also ensure there are clear processes for taxpayers to notify them about errors. Ideally, the guidance on GOV.UK would be updated in respect of all affected forms and documents to include details of how to correct an error on them and the applicable time limits. In respect of customer correction notices, HMRC will need to carry out work and provide guidance to help taxpayers understand the implications of the notice and to give them sufficient support to enable them to respond to the notice appropriately.

- 2.1.7 The fear of penalties and not being able to afford them can be a strong disincentive to taxpayers and prevent them from coming forward. The measure provides that there will be no penalty where a taxpayer takes corrective action and at the time of making the original error the behaviour was neither careless nor deliberate – it was an error made despite taking reasonable care. A stronger incentive for taxpayers to take corrective action under this obligation would be for there to be no penalty where a taxpayer takes corrective action and at the time of making the original error the behaviour was not deliberate. This would help to encourage taxpayers to come forward where they know their behaviour was not deliberate but are uncertain as to whether HMRC would view their behaviour as careless.
- 2.1.8 We understand that HMRC will use customer correction notices where they do not have sufficient data to issue a revenue correction notice. It is important that HMRC only issue customer correction notices where they have confidence in the data. Issuing customer correction notices to taxpayers that have not made errors will not only impose an unnecessary and unjustifiable burden on those

tax year of assessment for deliberate behaviour. Where the tax does not relate to offshore income and gains, penalties can range between 0% and 30% for careless behaviour, whereas they can range between 20% and 100% for deliberate behaviour.

taxpayers, but it could also have a negative effect on the credibility of, and taxpayer trust in, HMRC. Low-income, unrepresented taxpayers may be caused anxiety by customer correction notices, whether issued correctly or incorrectly. This could result in taxpayers ignoring customer correction notices, making unnecessary amendments in HMRC's favour or making incorrect amendments, and suffering the tax and penalty consequences.

- 2.1.9 Taxpayers who have previously received One to Many campaign letters⁵ from HMRC may not readily distinguish between those letters and customer correction notices. In some cases, One to Many campaign letters do not require a response and we understand response rates generally can be fairly low, perhaps less than 20%. In order for customer correction notices to be effective, they must clearly set out the importance of responding, the different response options and explain how to respond and the consequences of failing to respond.

2.2 ***Q.2 Does the measure strike a proportionate balance between the taxpayer and the tax authority?***

- 2.2.1 Some aspects of this measure suggest a presumption that taxpayers do not wish to comply, whereas in our experience, most taxpayers wish to meet their tax obligations.
- 2.2.2 The change in treatment of uncorrected errors from careless to deliberate under the amendment to section 118 of Taxes Management Act 1970 could result in high penalties for an error that, at the time, was made despite taking reasonable care. The draft legislation does not provide clarity on how a taxpayer can displace this deemed treatment. It is also problematic because of the judgement involved at various stages, such as to:
- whether the taxpayer has become aware of an error,
 - the type of behaviour involved at the time of the original error,
 - whether it is within time to be assessed, and
 - whether the taxpayer has taken reasonable corrective action.

These issues make it difficult for an unrepresented taxpayer to understand and defend their position.

- 2.2.3 There is a lack of detail in the legislation as to how a taxpayer may become aware of an inaccuracy. It can be extremely difficult to prove a negative, so to ensure this measure is not weighted too heavily in favour of HMRC, the burden of proof should lie with HMRC to prove that the taxpayer was aware of the inaccuracy.
- 2.2.4 In respect of customer correction notices, we are concerned at a couple of gaps in the legislation. For example, there is no minimum timeframe that HMRC must allow for responses to the notices. We think there should normally be a minimum of 60 days or even 90 days allowed. This is to give the taxpayer time to digest the notice, review their tax document and supporting calculations or evidence, and seek guidance or advice. In addition, there is no requirement on HMRC to respond to the taxpayer to confirm receipt of the correction and to close the process. This should be balanced

⁵ HMRC use One to Many campaigns to send a standard message to many customers. Some campaigns are purely educational in nature, whereas others are aimed at prompting the targeted taxpayers to check and correct their tax return or to make a voluntary disclosure.

with the taxpayer's response timeframe. This is an important safeguard that should be included in the legislation.

2.3 Q.3 What are your views on the proposed sanctions for non-compliance?

2.3.1 Failure to take corrective action under the general obligation results in deliberate penalties; failure to respond to a customer correction notice results in careless penalties, with the ability to displace this presumption. Not only does this appear inconsistent, but it appears unreasonable that the taxpayer does not have the ability to appeal against the treatment of an error as deliberate under the general obligation to correct. We would suggest possible grounds of appeal could include that the taxpayer had taken reasonable corrective action, and/or that the taxpayer was not aware of the error to the extent required to bring the provision into effect.

2.3.2 This measure contains strong sanctions for non-compliance in respect of the general obligation to take corrective action. However, the benefits of coming forward voluntarily are fairly weak, as discussed in paragraph 2.1.7 above. We think there should be a sharper distinction between the treatment of taxpayers who deliberately and repeatedly fail to comply and taxpayers who make the occasional mistake but are trying to get things right. We do not think this measure makes that distinction clearly, and as a result, risks being less effective, because of the disincentive to coming forward that penalties can create.

2.3.3 There is no fixed penalty for failing to respond to a customer correction notice – this is welcome, as it would not be appropriate to impose a penalty where a taxpayer fails to respond, but the relevant return or document is in fact correct. Also, see our comments at paragraph 2.4.9 below.

2.4 Q.4 How straightforward is it likely to be for taxpayers to understand their obligations under this measure?

2.4.1 Before a taxpayer can understand their obligations, they must be aware of their existence (see our comments at paragraph 2.1.6). Assuming satisfactory awareness, however, the measure as drafted is problematic and contains an internal inconsistency.

2.4.2 According to the explanatory note, paragraph 1(1) of new Schedule 24A of Finance Act 2007 details "What constitutes a taxpayer becoming aware of an inaccuracy". However, the provisions at paragraph 1(1) give only the receipt of a correction notice as an example of how a taxpayer may become aware of an inaccuracy or of why HMRC might view the taxpayer as having become aware of an inaccuracy. Taxpayers must have a means of proving to HMRC that they were unaware of an inaccuracy. The lack of detail in the legislation as to what constitutes becoming aware of an inaccuracy makes this difficult. The burden of proof should lie with HMRC to prove the taxpayer was aware and should have taken reasonable steps. We also think the legislation should be amended to clarify what constitutes becoming aware of an error.

2.4.3 We think there is an internal inconsistency between the provisions at paragraph 1(4) and 2(3) of new Schedule 24A of Finance Act 2007. Where a taxpayer becomes aware of an error as a result of a customer correction notice and does not take corrective action, it is unclear whether paragraph 1(4) or paragraph 2(3) applies.

- 2.4.4 Moreover, this inconsistency appears to create a perverse disincentive. It appears that a taxpayer who becomes aware of an error after the fact may be better off in terms of penalties to wait to see if HMRC become aware of the error and issue a customer correction notice before correcting their error. Waiting for a customer correction notice would result in no penalty, whereas correcting voluntarily would mean the taxpayer needs to demonstrate that they took reasonable care in order to avoid a penalty.
- 2.4.5 There are also some details missing from the legislation. We acknowledge that these may be contained in guidance in due course, but given the legislation imposes a statutory obligation on taxpayers, we would expect more of the key detail to be in the primary legislation.
- 2.4.6 In respect of the obligation to take corrective action, the draft legislation does not set out how long a taxpayer has to correct an error once they have become aware of it. There needs to be clarity as to what evidence a taxpayer needs to show they were in the process of complying if HMRC identify the error in the meantime. Alternatively, there needs to be clarity as to whether the taxpayer should notify HMRC of their intention to make a correction, before going on to do so. In this case, there needs to be a clear process to enable notification followed by correction.
- 2.4.7 In cases where the usual amendment time limit has passed, the measure requires the taxpayer to self-assess the behaviour related to the original error, to determine whether or not HMRC are in time to make an assessment. Unrepresented taxpayers are unlikely to be able to discern the behaviour involved or even be aware of the differing assessment windows that these behaviours give rise to.
- 2.4.8 If there is a difference of opinion between HMRC and the taxpayer, it is unclear how the taxpayer can prove that they made a reasonable decision not to take corrective action because they thought the assessment time limit had passed. Because of the difficulty in assessing behaviour, we also anticipate that taxpayers eager to ensure their tax affairs are correct and to gain reassurance will contact HMRC about errors that are well outside their assessment limits. This may drive unnecessary contact with HMRC.
- 2.4.9 In respect of customer correction notices, we welcome the provision in the draft legislation that a notice must specify the inaccuracy or kind of inaccuracy to be corrected. This means the measure has more chance of being effective. However, even with this information, low-income, unrepresented taxpayers may not understand what they need to amend, how to do so or why the original information is incorrect. They are likely to seek support from HMRC or the tax charities, but where they are unable to do so, or encounter obstacles, they may give up and fail to comply with the notice.
- 2.5 ***Q.5 Are there alternative means of achieving the policy objectives of this measure?***
- 2.5.1 We understand that one of the main objectives of this measure is to counter high volume, low value errors, where enquiries would be too resource-intensive or heavy-handed, but HMRC do not have enough information to allow them issue a revenue correction notice under section 92B Taxes Management Act 1970.

2.5.2 We have suggested to HMRC that before introducing customer correction notices, they improve their revenue correction notice processes. We welcome the steps they are taking to do so.

2.5.3 Our experience suggests that certain high volume repayment agent activity could be driving some of the increase in high volume, low value errors. In addition to this measure, we think HMRC should be checking the processes of high volume repayment agents from end-to-end. HMRC have already taken steps to disrupt the business models of these specific agents, such as requiring the provision of evidence in support of certain tax relief claims – we welcome them, but think there is more to do.

2.6 ***Q.6 How might this measure interact with other taxpayer duties and HMRC powers?***

2.6.1 It is unclear how HMRC's use of One to Many campaigns will interact with this measure. In particular, it is not clear whether HMRC will regard the receipt of a One to Many campaign communication as constituting a taxpayer becoming aware of an inaccuracy for the purposes of the general obligation to take corrective action.

2.6.2 If the proposal to introduce a criminal offence for making reckless untrue statements or declarations is pursued, we think it could discourage taxpayers who have become aware of an error after the fact from taking corrective action in accordance with the correction powers in this measure. See paragraph 3.3.2 below.

2.7 ***Q.7 What are your views on how this measure was developed and consulted on?***

2.7.1 There have been a number of opportunities for stakeholders to provide feedback to HMRC during the development of this measure. We have submitted formal written responses to consultations and have also been able to provide oral and written informal comments to HMRC.⁶ Throughout the process, we have requested that HMRC focus on improving their revenue correction notice processes prior to moving forward with the introduction of a customer correction notice. We have also raised concerns as to how a customer correction notice would integrate and interact with HMRC's increasing use of One to Many campaigns.

2.7.2 We are aware that there had been stakeholder support for a general requirement to correct, however the draft legislation was our first look at the final proposal. In other consultation responses concerning behavioural penalties, we had noted the difficulties and subjectivity inherent in determining whether a non-deliberate error is a result of carelessness or has been made despite taking reasonable care. As a result, we thought there should be a distinction between deliberate and repeated errors versus non-deliberate and occasional errors (both careless and not careless). HMRC's approach, however, appears to link up careless with deliberate errors. It is disappointing that this approach has been taken, despite the views provided during consultation.

⁶ In addition to our recent submission on the draft legislation, LITRG responded to the Tax Administration Framework Review: enquiry and assessment powers, penalties, safeguards (<https://www.litrg.org.uk/submissions/tax-administration-framework-review-enquiry-and-assessment-powers-penalties-safeguards-litrg>) and the Tax Administration Framework Review: new ways to tackle non-compliance (<https://www.litrg.org.uk/submissions/tax-administration-framework-review-new-ways-tackle-non-compliance-litrg-response>), and shared informal comments with HMRC following a presentation at the One to Many Compliance Advisory Board meeting in September 2025.

- 2.7.3 There has not been a clear explanation given as to why these concerns have not been taken on board.

3 Criminal offence of reckless untrue statements and declarations consultation

- 3.1 ***Q.8 What are your views on the need for a new criminal offence of making reckless untrue statements or declarations in direct tax matters, as is currently being consulted on? How effective do you expect such an offence to be at improving taxpayer compliance?***

3.2 *The need for the proposed criminal offence*

- 3.2.1 In the consultation document, HMRC state that this proposal would address an inconsistency between direct and indirect tax offences. While consistency may assist HMRC, we are not convinced that the simplification argument applies in the case of individual taxpayers, who deal only with income tax on a regular basis. Consideration also needs to be given as to whether there is a reason for the differences between the direct and indirect tax regimes, for example the fact that indirect tax matters are often transactional, whereas direct tax matters can often involve subjectivity, uncertainty and complexity.
- 3.2.2 Another reason provided in the consultation for the proposal is HMRC's concern that some cases undergoing criminal prosecution, or which HMRC would like to go to criminal prosecution, do not quite meet the standard for a criminal conviction. This is not quantified, however. The consultation fails to demonstrate the existence of a clear gap between existing civil and criminal powers and does not show the need for a criminal offence for behaviour that falls short of dishonesty.
- 3.2.3 We think there are a number of questions to be explored before taking this proposal forward, such as whether the proposal will tackle the problem effectively and achieve the desired outcomes, why do current powers not suffice, are there specific taxes or policy areas for which HMRC envisage this power being particularly useful?
- 3.2.4 We feel there is a strong argument that the test for criminal prosecution should remain restricted to those who have, beyond all reasonable doubt, acted dishonestly.
- 3.2.5 It is not immediately clear how HMRC will distinguish between the civil offence of carelessness and the proposed criminal offence of recklessness. This seems to be a very subjective area. We think there is a significant risk of creep in how this power is used in future, especially if there continues to be pressure on HMRC to close the tax gap. We think it would be helpful to have an official record of the policy intent – making it clear that it is not intended to give HMRC the power to criminalise behaviour that is currently dealt with adequately by the existing civil penalty regime.

3.3 *Effectiveness in improving taxpayer compliance*

- 3.3.1 Many direct taxes involve self assessment or self-service. Errors are common when taxpayers are unable to afford professional assistance, but they are rarely a result of dishonesty. In our experience, non-compliance amongst low-income, unrepresented taxpayers is rarely due to insufficient deterrents. It is more likely to be due to a failure to understand obligations, how to obtain assistance

or due to facing personal circumstances that make it difficult for them to engage with the tax system. Many unrepresented taxpayers are unaware of the existence and / or nature of sanctions until they are imposed on them, although they may have fears based on anecdotes.

- 3.3.2 Where low-income, unrepresented taxpayers are aware of this policy, we think it is likely to cause some anxiety. We also have a concern that it could cause some taxpayers to disengage with the tax system completely. Others may not come forward voluntarily when they realise they have made a mistake, even where they took reasonable care, for fear of the consequences. The proposed consequences are very serious sanctions for conduct that, by definition, falls short of dishonesty – maximum two years imprisonment and an unlimited fine.
- 3.3.3 There may be unequal outcomes between represented and unrepresented taxpayers. Firstly, represented taxpayers may be less exposed to this offence than those who cannot afford professional advice. Unrepresented taxpayers cannot be expected to be aware of every tax complexity, or to know when it is appropriate to seek advice. Secondly, once accused of this offence, an unrepresented taxpayer will be less well-placed in terms of defending their position and behaviour. Because of this, we think that where a taxpayer is unrepresented, their case should be referred to HMRC's Customer Compliance Group Extra Support Team for an initial assessment of their ability to represent their own case effectively. We also think HMRC should commit to monitoring and publishing data related to this policy, including number of prosecutions, tax at stake, income level of taxpayer, representation purposes (for tax generally and at court) and whether the taxpayer needs extra support.
- 3.3.4 It should also be noted that some of the errors that might be considered reckless according to the consultation document are not always the result of taxpayer action. There are cases of certain unscrupulous agents submitting erroneous returns and documents on the taxpayer's behalf, in some cases without the taxpayer's knowledge or understanding.
- 3.3.5 We think some circumstances should be excluded from the scope of the offence, including cases of reasonable reliance, legitimate uncertainty, vulnerability and where the taxpayer is a victim of fraudulent or unscrupulous agent activity.
- 3.3.6 We are not convinced that this proposal will improve taxpayer compliance. Those who deliberately falsify their tax returns and documents are already potentially subject to criminal sanctions. So, this proposal is unlikely to have much effect on those who are deliberately non-compliant.
- 3.3.7 We believe that the most effective way of improving taxpayer compliance generally involves making it easier for taxpayers to comply (by providing services that are easy to use and access), using nudges and prompts to improve taxpayer awareness and understanding, acting in a timely manner and following the Charter standards. These actions help to build trust in the tax system, which in turn encourages voluntary compliance.

4 About Us

- 4.1 LITRG is an initiative of the Chartered Institute of Taxation (CIOT) to give a voice to the unrepresented. Since 1998, LITRG has been working to improve the policy and processes of the tax,

tax credits and associated welfare systems for the benefit of those who are least able to pay for professional advice. We also produce free information, primarily via our website www.litr.org.uk, to help make a difference to people's understanding of the tax system.

- 4.2 LITRG works extensively with key stakeholders such as HM Revenue & Customs (HMRC) and other government departments, commenting on proposals and putting forward our own ideas for improving the tax system. LITRG also considers the welfare benefits system, and other related systems, to the extent that they interact with tax.
- 4.3 The CIOT is a charity and the leading professional body in the United Kingdom concerned solely with taxation. The CIOT's primary purpose is to promote education and study of the administration and practice of taxation. One of the key aims is to achieve a better, more efficient, tax system for all affected by it – taxpayers, advisers and the authorities.

LITRG
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