HM Revenue & Customs Invites Landlords & Employees with Second Incomes to Come Clean

HMRC's disclosure campaigns are all about encouraging people with outstanding UK tax liabilities to come forward and declare and pay their unpaid tax. Two such groups that they are hoping to hear from are landlords and employees with a second income.

Getting people to spontaneously pay their back taxes is a good thing for HMRC because they can collect the outstanding tax without needing to get into costly investigations and it benefits taxpayers because they get to clean up their tax affairs whilst paying only a fraction of the penalty that would ordinarily be payable.

HMRC knows there are various reasons why the right amount of tax is not always paid when it should be and dishonesty is not always the motivation. Furthermore, they want to help people to put things right.

Those that want to make disclosures about undeclared tax liabilities are always welcomed by HMRC and unprompted disclosures are viewed favourably, much more so than if HMRC have to make the first move. Disclosure facilities are made available to further assist and encourage certain targeted groups of taxpayers to make unprompted disclosures.

Historically, the focus of disclosure facilities has been on the people with tax liabilities relating to offshore assets but more recently HMRC have introduced these to other groups of people. Targeting areas of the economy with greater risk of undeclared income, HMRC focuses on specific groups of people in each of their compliance campaigns.

These campaigns are made up of a combination of interlinked elements: publicity, investigations and disclosure facilities. The elements work well together because the threat of investigation is an excellent catalyst in getting people to use the disclosure facility thus reducing the resources required for investigations.

There are three main disclosure facilities that are currently open. The "Worldwide Disclosure Facility" is open to people with tax liabilities relating to offshore assets and remains open until September 2018. The "Let Property" campaign is for landlords with outstanding tax on their residential property income and the "Second Incomes" campaign is for UK based employees with undeclared income they earn in their spare time. Neither the let property nor the second incomes campaigns have firm end dates and are expected to be open for quite some time.

The let property campaign is open to individuals who:

- rent out a single residential property;
- rent out multiple residential properties;
- are specialist landlords, e.g. providing student or workforce rentals;
- rent out a room in their main home for more than the Rent a Room Scheme threshold;
- live abroad and rent out a residential property in the UK;
- live in the UK and rent a residential property abroad; or
- rent out a holiday home (even if it is used personally).

There are various reasons why property income is not declared, ranging from deliberate omissions to innocent errors. HMRC have published some useful guidance online on the tax rules surrounding property income to help provide some clarity, including a questionnaire and some case studies.

The second incomes campaign is open to UK residents in employment but who are also generating additional income working for themselves.

The examples HMRC gives as possible sources of a second income are:

- consultancy fees, e.g. for providing training;
- organising parties and events;
- providing services like taxi driving, hairdressing or fitness training;
- making and selling craft items;
- buying and selling goods, e.g. at market stalls or car boot sales.

If rental or self-employment income has not been taxed via the Pay as You Earn or Self Assessment systems then HMRC needs to be informed. If the income only commenced relatively recently, in either of the current or previous tax years, then it can be declared on the individual's Self Assessment tax returns. However, if the income commenced before the previous tax year then a voluntary disclosure will need to be made and doing this under the relevant campaign will ensure the best terms.

When making a disclosure it is crucial that a full disclosure is made and that all unpaid tax liabilities are included. Some might relate to activities or assets that are unrelated to the specific campaign being used and this is fine as long as at least some of the tax outstanding is related.

The disclosure process is the same for both the let property and the second incomes campaigns and is broadly as follows:

1. If you are not already registered for Self Assessment then you will need to register in order to obtain a Unique Tax Reference number ("UTR").

2. Notify HMRC that you intend to make a disclosure.

3. HMRC will write to you with two reference numbers, one to use when making the disclosure and one to use when making the payment. Their letter marks the start of a 90 day window in which to make the disclosure and pay the tax.

4. Calculate how much tax you owe and work out when it should have been paid. Also calculate your interest and penalties. Interest is calculated using HMRC's official interest rates and the penalty rate is selected based on your specific circumstances (you can expect the penalty to be no more than 35%). HMRC has published guidance and online calculators that can help with this.

5. Submit your disclosure to HMRC within the 90 day limit including an offer to pay the total you calculated in the previous step.

6. Pay the outstanding tax, interest and penalties in full within 90 days. If payment cannot be made in time, alternative payment arrangements can usually be agreed.

7. Co-operate with any follow up questions that HMRC may ask or documents that they may request.

It is always a good idea to make a full disclosure to HMRC if it becomes clear that you have undeclared tax liabilities. The only incentive you really need is that if you go to them before they come to you, you put yourself in a much stronger position. It will end up costing you a lot less money, time, aggravation and sleepless nights than if you ignore it and hope it goes away.

Anyone who knows they have, or thinks they may have, an undeclared UK tax liability of any kind would be well advised to speak to a tax adviser to get a professional opinion and to act quickly because the chances of "getting away with it" only get smaller as time goes on.

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