HMRC - EM6418 - Defaulting Taxpayer

The guidance about contract settlements at EM6000+ only relates to direct tax. You must never include VAT or VAT penalties in a contract settlement.

If the taxpayer tells you that they are unable to pay the agreed settlement, there are two possible approaches.

1. Most cases - a DMB matter

Unless the exceptional situation at 2 below applies, the taxpayer’s inability to pay is a recovery problem. You must pass the case to the Contract Settlements unit and they will decide how to proceed, see EM6412. The Contracts Settlement Unit will not in any circumstances rework the contract.

2. Exceptionally - rework the instalments

The taxpayer may tell you that they are unable to pay the instalments under the agreed settlement because of a change in their circumstances. Exceptionally, you may consider it necessary to revise the original instalment offer, for example to spread the instalments over a longer period so that the taxpayer can pay them. Before you can do this you must

make a report to Contact Link for advice on the acceptability of a new arrangement and the wording of any fresh offer. Unless the taxpayer makes their approach to you immediately after the acceptance of the original offer, there will be additional interest to take into account and they may already have paid some instalment payments. Your report should therefore, include your computation of the revised offer on a fresh form 94,

ask the Contract Settlement Unit at Northampton DMO to suspend recovery action while the proposals are considered and ask the SAFE nominee to stand over the charge.

If the taxpayer cannot make any acceptable proposals for settlement it is a recovery problem, so follow the guidance at 1 above.

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