HMRC - IPT09140 - Assessments: Time Limits For Making And Notifying Assessments

The Finance 1994 prescribes time limits only for the ‘making’ of an assessment. It does not prescribe time limits for the processing and notification procedures that follow on from the making of an assessment.

Although it is our policy that notification should follow without delay, delays in notification can occur from time to time due to localised and administrative difficulties. Problems arise when an assessment is made close to the time limit for assessing. An officer may make an assessment in time but it may not be notified until later.

In such cases we must always be able to demonstrate that the assessment was made within the prescribed time limits. We have increasingly faced challenges in this area, and we acknowledge that it is undesirable that our time limit rules should attach to a “made” date which is not routinely disclosed to tax payers. Therefore for all assessments made on or after 1 March 2001 we will rely on the date of notification of an assessment as the material date for time limit purposes. It is consequently essential that assessments are notified within the statutory time limits prescribed in the Finance Act for the making of assessments. These time limits are set out in the following paragraphs.

Assessments at risk of running out of time pending processing of IPT 641

Assessments will normally be notified to the taxpayer on the “Notice of Assessment and/or Underdeclaration”, generated by the input of the IPT 641. However, where there is a danger that the IPT 641 will not be processed in time for the assessment to be notified within the time limits for making the assessment, the assessment must be notified by letter.

This specimen Notice of Assessment letter for use in these circumstances informs the trader that an assessment has been made and gives the necessary details. It also tells the trader that a computer-generated notification will follow in due course and that this will provide payment instructions etc. The IPT 641 can then be completed and processed as normal and the “Notice of Assessment and/or Overdeclaration” issued to the trader in the usual way. Following up the manual letter of notification with the computer-generated notification in this way has the following advantages.

The IPT 641 would normally be completed in any event in order to update the trader’s accounting record.

It removes the need to ensure the output documents are inhibited.

The trader can use the remittance advice attached to the notice of assessment to make payment.

Note that the time limit for appeal to Tribunal runs from the date of the initial notification of the assessment.

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Legal requirements

Assessments should be made and issued as promptly as possible. In practice there may be occasions when you have to weigh up the good practice of issuing prompt assessments against allowing an insurer time to submit detailed arithmetical workings or representations about a matter of liability or other policy. Clearly we should allow insurers time to make representations or submit figures, but you must be careful not to allow unduly lengthy delays.

There are, in effect, two sets of statutory time limits relating to the making of assessments. These time limits cover:

how soon an assessment has to be made once the facts necessary to make an assessment are available; and

what period of time an assessment may cover.

Section 56(5) of the 1994 Finance Act says:

(a) two years after the end of the accounting period;

Most officers’ assessments are made within the One Year Rule described at section 56(5)(b). The Two Year Rule described at Section 56(5)(a) is an alternative to the One Year Rule and applies only if more than one year has passed since evidence of facts came to knowledge. In this case you must not include in an assessment any tax period which ended more than two years before the date it is made. Section 56(5) continues:

This allows us to make more than one assessment in respect of any period, so that if we make one assessment and later find new evidence of further errors we can make a second assessment in respect of the same period. This also allows an officer’s assessment to be made to increase a central assessment.

Paragraph 26, Schedule 7 of the 1994 Finance Act (as amended by the Finance Act 1997) contains detailed provisions relating to the length of time an assessment may cover. This says, in subparagraph (1):

This time limit applies in conjunction with the One Year Rule (section 56(5)(b) of the Finance Act 1994).

Subparagraph (4) of paragraph 26 of Schedule 7 extends the time limit in cases of fraud, or late registration, to twenty years. Subparagraph 4 says:

(a) as a result of conduct falling within paragraph 12(1) [of Schedule 7] above or for which a person has been convicted of fraud, or

(b) in circumstances giving rise to liability to a penalty under paragraph 14 above,

Note: The twenty years extension only applies to assessments issued within the One Year Rule.

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