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Our ref FOI 1926/09
Your ref

Dear Mr Oakley

Further to my letter of 25 August, I am responding to the requests that you made in your e-mail of 30 July.

You asked for the reasons behind the rule that states that a taxpayer wanting to offset expenses against tax for expenses or professional subscriptions of £2,500 or more has to complete a personal tax return (self-assessment return).

The figure of £2,500 was increased from £500 with effect from April 2004 as one of a series of initiatives in response to recommendations made by the Treasury Select Committee in connection with the self-assessment system for individuals. The Committee recommended that the then Inland Revenue take steps to reduce the number of individuals required to complete personal tax returns with particular emphasis on pensioners and the lower paid.

I have been unable to find any document that records why the figure of £2,500 was chosen. However, the size of the increase from the previous limit would have significantly reduced the number of individuals required to make a claim for expenses by completing a tax return.

HMRC captures and processes the information on tax returns and tax becomes due or repayable in accordance with the return information and the taxpayer's self-assessment. HMRC then conducts a risk assessment as part of the process of checking the return. The risk assessment may identify obvious errors which can be corrected or other matters that may require more detailed explanation and for which a formal enquiry will be necessary. Information about expenses will be considered with the other return information as part of that risk assessment.

You also asked how a taxpayer affected by the £2,500 limit for expenses is expected to know that they need to complete a tax return, what they need to do and by what time. The changes made in response to the recommendations of the Treasury Select Committee

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included the publication of the criteria that HMRC uses for deciding whether a tax return is needed. These can now be found under “Do you need to complete a tax return?” at <http://www.hmrc.gov.uk/sa/need-tax-return.htm>. A taxpayer who has incurred expenses that they wish to set against tax will need to contact HMRC. If those expenses are £2,500 or more, the HMRC officer should explain what is required. A PAYE taxpayer who needs to complete a tax return has five years from the 31 October following the end of the tax year to require HMRC to give him or her notice to make a return.

Finally, I explained in my previous letter about the steps that you can take if you wish to pursue a complaint about the conduct of staff at Dorchester Enquiry Office.

Yours sincerely

Martin Delnon
Self-assessment policy adviser