

PO-CH/NL/0272

PART A

Part A.

Begins: 1/3/88.
Ends: 7/3/88.



PO -CH /NL/0272



PART A

Chancellor's (Lawson) Papers.

THE TIMES ARTICLES ON
THE POWERS OF THE INLAND
REVENUE

Series of the Inland Revenue

Disposal Directions: 25 Years

Phillips

11/10/95

PO -CH /NL/0272

PART A

PART A



Inland Revenue

Policy Division
Somerset House

FROM: C W CORLETT
FAX No. 6766
EXTN. 6614
1 March 1988

Thanks.

1. MR BATTISHILL
2. CHANCELLOR OF THE EXCHEQUER

TIMES ARTICLES ON THE POWERS OF THE REVENUE: MONDAY

1. Monday's article (copy attached) concerns the handling of a claim to covenant relief from the Professor of Christian Doctrine at Kings College, London and his student daughter.

2. The article suggests that the enquiries which our Claims Office in Bootle made into the covenant were unjustified, heavy-handed and threatening.

3. Because of the rules of confidentiality, we cannot of course provide full details of this case. But you will be aware of problems which have occurred on a fairly wide scale when people seek to use the tight legal framework of a deed of covenant in order to turn their own income into someone else's for tax purposes. Unless they get the legal mumbo-jumbo right, the trick does not work.

cc Financial Secretary
Miss Sinclair
Mr R Allen
Mr Cropper

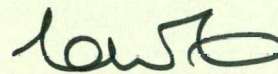
Mr Battishill
Mr Isaac
Mr Painter
Mr Rogers
Mr Pollard
Mr Beighton
Mr Deacon
Mr Roberts
Mr Cherry
Mr Stewart
Mr Sullivan
Mr Davenport
Miss McFarlane
PS/IR
Mr Corlett

4. The article itself admits that there were features in Professor Gunton's covenant arrangement which might cause the Inspector to pause and make further enquiries -

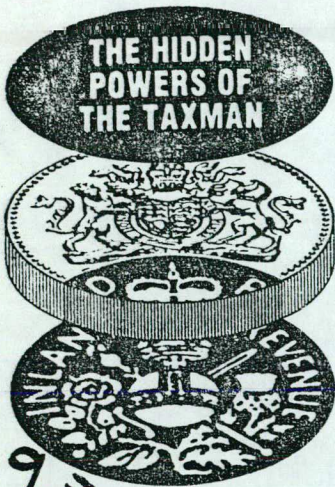
- the Professor made a "simple mistake" in drawing up the documentation
- his daughter nominated her father to receive her tax repayment.

5. More generally, it is clearly ludicrous to liken, as the article does, full-scale investigations into jockeys, subcontractors and television employees (and statements such as "the arrival of Inland Revenue Inspectors") with the sort of enquiries made of covenantors. Nevertheless, without in anyway suggesting that there was an attempt to fiddle in this case, there has, as you know, been a good deal of negligence and laxness in handling covenants in certain quarters - and in some cases downright fraud - leading to the recovery of a lot of tax, much of it from religious bodies. So it is clearly right that covenants are carefully scrutinised before we make what are often very substantial tax repayments.

6. We shall report similarly on the subsequent articles.


C W CORLETT

Shifting the burden of proof



There was a time when taxpayers were given the benefit of the doubt, presumed innocent until proven guilty. But there is evidence that this is changing. In an introduction to a four-part series on the Inland Revenue's controversial new hard line, David Brewerton examines

the case of a student and her father who came under suspicion after making a mistake on a claim

Twenty months ago, the Inland Revenue published a Taxpayers' Charter. One of the tenets of the charter was stated as follows: "You will be presumed to have dealt with your tax affairs honestly, unless there is reason to believe otherwise."

The tax inspector who dealt with the affairs of Carolyn Gunton, an 18-year-old student at Birmingham University, appears to have paid little attention to the charter. Because of a simple mistake, Miss Gunton joined the growing number of people whose brush with the tax inspector made her feel that she had been judged guilty unless she could prove her innocence.

It appears that, unknown to her, she had become caught up in one of the Inland Revenue's special operations. It was a similar operation to the one which eventually led the jockey Lester Piggott to prison, but last summer the Inland Revenue was looking at deeds of covenant, a tax-saving device which can be used by a parent or grandparent to finance a student's university years.

The "crime" of Carolyn Gunton, or more particularly of her father, who is a distinguished university professor and theologian, was to make a simple mistake at the wrong time.

The brush with the taxman occurred after Miss Gunton

submitted a claim for the repayment of tax which was due under a deed of covenant from her father. Instead of the expected cheque for the reclaimed tax, she received a letter from an Inspector of Taxes in Bootle, Merseyside, hundreds of miles from her home and her local tax office in Essex.

The letter began ominously: "Your file has recently been passed . . ." — her file? Only 18, and already the Inland Revenue have a file? — . . . in connection with a claim for repayment recently submitted by yourself following the execution of a deed of covenant in your favour by your father."

Its third sentence began: "In the case of Clack v Clack 14 ATC.240, it was decided . . ." Miss Gunton knew nothing about Clack v Clack, but it did suggest somebody had ended up in court for claiming what she had claimed.

The letter stated that before she could get her repayment, she had to provide evidence that what she said her father had paid under the deed of covenant had actually been handed over. "Such evidence should take the form for example of your bank statements," the inspector went on to suggest, "or building society pass book into which the covenanted sum was deposited. Would you at the same time ask your father to provide me with similar evidence, eg bank statement, and to indicate the

sums withdrawn which were used to finance the payments under the deed of covenant.

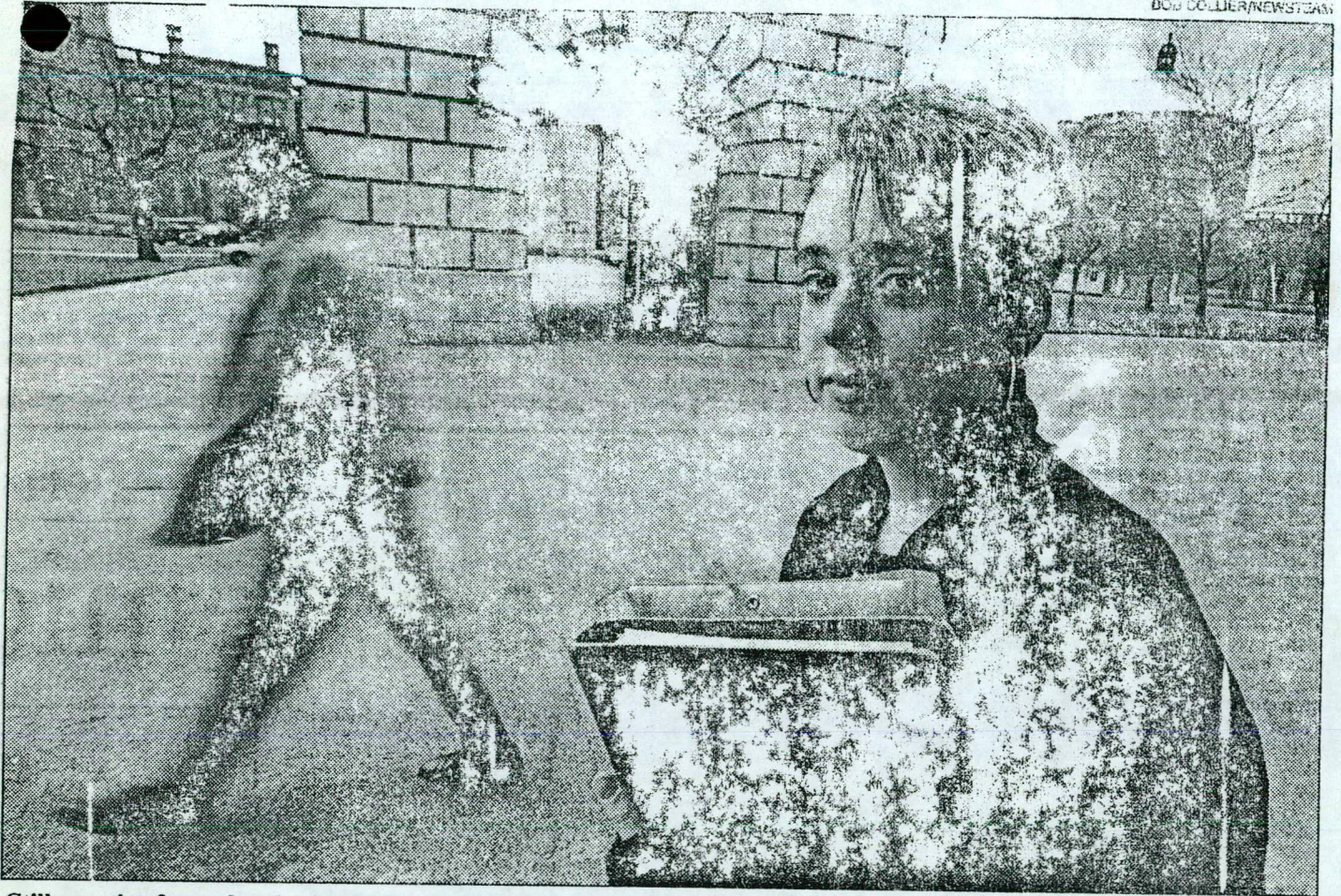
"Where it is not clear from the documentary evidence available that the sums received were paid on either due dates or in the amounts legally due under the terms of the covenant, please forward separate analysis of the sums actually paid by your father, together with the dates on which each sum was received."

Dr Colin Gunton says that the family immediately felt under suspicion. The demand for evidence suggested to him that, in the opinion of the tax inspector, neither he nor his daughter could be relied upon to tell the truth.

As Professor of the Chair of Christian Doctrine at King's College, London, and an assistant minister of the United Reformed Church, Dr Gunton feels he is unlikely to be singled out as the type most likely to fiddle his taxes. He did make a simple mistake in filling in the forms, stating an amount gross which should have been stated net. "When articulate, well educated people like us can feel threatened because of a simple misunderstanding, I think it shows the system is too heavy handed," he says.

According to Miss Gunton, her

CONT... |||



Still smarting from a brush with the Inland Revenue: Carolyn Gunton, who along with her father, faced some hard questioning

father "was very upset about it. I had filled in the bit of the form where I could nominate him to receive the tax back, because he'd already paid all the money over to me. They wanted to know why I'd done it that way."

The Inspector of Taxes, in the letter, demanded to know "your reasons for this nomination" and also asked Miss Gunton to "confirm that any sums will be used solely for your benefit". If the Gunton family came up with the evidence, then the inspectors would allow the repayment "purely by concession".

The family did provide all the evidence that was required to establish that they had been innocent of the tax fraud of which they felt, by implication, they had been accused.

"I wrote to complain about the

manner in which the claim had been handled," Dr Gunton says, "and I did get a letter back which maintained that I had not been under suspicion. But the clear implication all the way through was that we were trying to fiddle them, which is ridiculous."

The incident coincided with a clampdown on deeds of covenant last year, when two accountants, Danby Bloch and Raymond Godfrey, writing in *The Times*, reported that "the enthusiastic questioning and delving by tax offices around the country suggests strongly that the Revenue has started a serious campaign".

Over recent years, campaigns have been mounted against television presenters, against building sub-contractors, against foreign entertainers and sportsmen visit-

ing this country, and other groups. The campaigns are mounted by the Special Investigations section. When such a campaign gets under way, the innocent are as likely to be caught up and questioned as the guilty. The problem is, as two leading accountants from Arthur Young recently pointed out, faced with the Inland Revenue's "robust spirit of enquiry" the businessman and the private individual alike have every reason to feel uneasy.

"The arrival of the Inland Revenue inspectors — and the unspoken assumption of his [the taxpayer's] guilt — is likely to have an acutely demoralizing effect." The effect is echoed by the Gunton family, who still, six months later, smart at the heavy hand of the Inland Revenue and feel that their honesty had been questioned.

There is no doubt that abuses under deeds of covenant do take place. Dr Gunton points out, though, that had he been setting out to defraud the Inland Revenue, he would hardly have begun by filling in the forms incorrectly.

TOMORROW

PART ONE: How the accountants fear the new zealous and aggressive taxman



THE BOARD ROOM
INLAND REVENUE
SOMERSET HOUSE

FROM: J H ROBERTS

2 March 1988

1. MR BATTISHILL
2. CHANCELLOR OF THE EXCHEQUER

TIMES ARTICLES ON THE POWERS OF THE REVENUE: WEDNESDAY

1. Today's article is about investigation methods, hit squads, dawn raids and the one sided way cases are settled.
2. Like the two before it is pretty strong on rumour and assertion but shaky on the facts.
3. The two anecdotes on methods look like a recycling of some of the snoopier stories from about 10 years ago. Some officers do get out and about as part of their approach to the Black Economy.

cc Financial Secretary
Miss Sinclair
Mr R Allen
Mr Cropper

Mr Battishill
Mr Isaac
Mr Painter
Mr Rogers
Mr Pollard
Mr Beighton
Mr Deacon
Mr Corlett
Mr Cherry
Mr Stewart
Mr Sullivan
Mr Davenport
Miss McFarlane
PS/IR
Mr Roberts

*Thanks: Friday's
Today's (Friday's)
article - see the link
back - unlinked -
need for a special
x for the published up
The list of
questions @ the
and the article, driving
was answered.*

There is no reason why they should not try to get information which is available in public. But they are not at all typical of the way resources are used and certainly not in the "highly trained hit squads". The article is way off the mark in its picture of the specialist offices being part of a new money making at all costs drive. Two of the offices named go back 60 years, one to the 1960s at least and even the most recent, the Special Offices, to 1976-84. They deal mainly with cases of serious fraud or major tax avoidance somewhat away from the bulk of cases which are handled in the local offices.

4. The insert on "dawn raids" is mainly about the power to carry out search operations introduced in 1976. The Board itself authorises each application to the Circuit Judge for a warrant and the power is used each year only in a handful of the most serious cases of suspected fraud (3 times in 1985, 6 in 1986 and 2 in 1987). Not quite what the article might suggest.

5. It is also wrong for the article to portray the independent tax commissioners as a threat to the taxpayers getting a fair assessment. The onus is on him at the appeal meeting to prove what his profits are because in the end only he has the full facts.

6. The article next quotes the increase since 1983 in settlements including interest and penalties as an indication of a hard line policy. But this reflects rather the results of better selection and detection so that efforts are concentrated on the more serious cases.

7. There is then a rather obscure reference to interest charges. The charge of interest on tax recovered to make good loss due to a taxpayer's fault goes back to legislation in the 1960s, and it does not seem unreasonable to expect defaulters to make good such losses.

8. The article finally quotes from our recent leaflets on the mitigation of the full legal penalties and echoes fears that despite what is said about co-operation mere protestations of innocence could lead to heavier penalties. There is no reason why this should be so and the guidance to inspectors negotiating settlements is clear on this subject.

JHR.

J H ROBERTS

SPECTRUM

Targets for the hit squad

THE HIDDEN POWERS OF THE TAXMAN

Thousands of taxpayers every year receive a rather vague letter from the Revenue asking them to confirm *all* their sources of income.

The letter is a warning not to be ignored: the citizen is under scrutiny. William Greaves and Vivien Goldsmith investigate

A man in mud-encrusted Wellington boots among the crowd at a county cattle auction was casually ticking off each sale in his catalogue and marking the price it achieved with all the apparent detachment of a farmer keeping a weather eye on the market. If he owned a bowler hat and umbrella then he had studiously left both at home.

At another place and another time, the young couple strolling down the promenade of a seaside resort diffidently agreed to the approach of a street photographer. Yes, they said, it would be nice to have a memento of their holiday. They didn't say they were honeymooners but they looked happy enough so to be. They even hung around some time after accepting

the photographer's receipt, apparently with nothing better to do.

Mr Wellington Boots and the "newly weds" were tax inspectors and they were not enjoying a well-earned day off. They were at work. And woe betide the farmer who sold cattle that day and later claimed he was the victim of rustling, or the man with the camera who had somehow forgotten to list professional photography as one of his sidelines.

Every year thousands of taxpayers — and some non-taxpayers — receive a brief and rather vague letter from the Inland Revenue asking them to confirm that their last return showed all their sources of income. "These letters are not issued haphazardly in the hope of

pricking the occasional conscience," a former tax inspector says. "They are always inspired by at least one piece of information held by the tax inspector which suggests that his target taxpayer is less than completely honest."

Such undercover operations might be regarded as a little sneaky, but if they do succeed in flushing out a deliberate tax evader then everyone — the Revenue, the honest taxpayer and particularly the full-time employee with an inflexible PAYE commitment — is the beneficiary. They are, however, symptomatic of the Treasury's new determination to fill the nation's coffers by whatever means it can.

This determination has, in recent years, led to the formation of a number of highly trained "hit squads" such as the Inquiry Branch, the Special Office, the Board's Investigation Office and the Special Investigation Section. These detective departments do not confine themselves to massive fraud inquiries like the Lester Piggott case — although that *cause célèbre* did graphically demonstrate

their power range, with investigators descending on trainers, jockeys, owners, the Jockey Club and race courses all over Britain. They can, and often do, home in on mistakes and misunderstandings in the returns of people who are innocent of any criminal intent.

And it is the subsequent bargaining power, the one-sided "deals" and the "penalties" contained within the tax departments' armoury, which is beginning to alarm the accountancy profession.

An inspector may, for instance, write to the subject of an investiga-

tion, advising him that the department has arrived at an assessment of £15,000 but would be willing to accept a compromise sum of £8,000. If the recipient believes that this lower figure is still too high, and says so, he will be advised that he can appeal to the general commissioners but, in that event, the inspector will be obliged to ask for the full £15,000.

"It's no use the taxpayer saying: 'My figures are right, yours are wrong'," says Monroe Palmer, a partner of accountants Palmer Marshall and a former Liberal Party treasurer. "The onus rests on the taxpayer to prove his own figures and, if he cannot, the Inland Revenue is reluctant to disclose the sources of its information. Only at the end of the day, if the figures cannot be reconciled, can one hope to obtain further information as to the figures in the inspector's possession, which can be wrong."

It is entirely at the discretion of the tax authorities whether they merely collect "unpaid" tax after a successful investigation or also

impose additional penalties and interest charges to cover the period it has been outstanding.

A clear indication of the hard-line policy of recent years is to be found in a comparison of anti-evasion and anti-avoidance investigations carried out, either in tax offices or by inquiry branches, over the last five years. Whereas the total number has actually declined during this period, from 66,809 to 61,656, those resulting in the imposition of interest charges and penalties — a minority of the cases in 1983 — has gone up by more than 7,000 to 38,707 and now dwarfs the numbers resulting in a demand for extra tax only.

The charging of interest has become one of the biggest, and most frequent, bones of contention between the taxpayer and the Revenue. Although it is a general dictate of common law that interest can only be charged on a

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DAWN RAIDS — AND THE LEGAL POWERS OF THE TAXMAN

● A tax inspector has statutory powers to demand that a taxpayer deliver any documents about his tax affairs, and a third party information power enabling him to issue a notice to any person to deliver documents relating to someone else's tax affairs, provided he shows authority signed by a general commissioner.

● He has no right, however, to demand that a document be created which did not previously exist, and he has automatic access only to documents — not to "particulars" such as details of meetings, plans and current price lists.

● If, and only if, he has established a *prima facie* case of fraud and has obtained a warrant issued by a circuit judge, he has the power to raid premises and seize documents. This warrant must be exercised within 14 days at any time during day or night.

● On entering the premises, if necessary by force, he has the right to seize and remove anything whatsoever which he has reasonable cause to believe may be required as evidence. He does not have to stipulate the nature of the fraud or justify the documents he takes.

● He can, however be asked — and must agree — to provide a list of everything he takes and the taxpayer must be allowed access to any documents which he needs in order to continue running his business.

● When more than one tax official arrives on the doorstep to request information, the numerical strength of the deputation sometimes convinces the taxpayer that it has right of access. Unless a warrant (issued under Section 20C) is produced, however, no such right exists and the recipient needs only to acknowledge the request and promise to consider it.

MONEY·MAIL

Check on your tax allowance now

22 by JACK BRYANT



CONT...

debt when there has been a prior agreement that such would be the case. Two Acts of Parliament, in 1975 and 1982, now make an appellant taxpayer liable to interest, not only on the amount originally demanded but also on any additional amount, previously unclaimed but found to be owing on determination of the appeal hearing.

Malcolm Gunn, editor of the magazine *Taxation*, wrote this year that there is now, "a rigid and uncompromising code which reg-

ularly catches out both the taxpayer and his professional adviser".

If the matter of interest is unacceptably rigid, however, the popular view of penalties - arbitrary "fines" over which the Inland Revenue fulfils the role of both judge and jury - is that they are not nearly rigid enough. Theoretically, a penalty can be imposed at a draconian level at least equal to the amount of unpaid tax - effectively doubling the taxpayer's bill. Thereafter the inspector may "mitigate" this penalty on three grounds: the willingness with which the taxpayer discloses his "irregularities," the gravity of his offence and his subsequent co-operation.

The two extremes of co-operation are defined as "ready provision of the necessary information, having regard to complexity of the taxpayer's affairs, and prompt attendance at interviews", and "obstructing the course of the investigation, including the provision of misleading or inaccurate information, delaying responses until formal proceedings to obtain information have been instituted, and generally trying to put off the settlement as long as possible."

In practice, many accountants now fear that even a mild rebuttal of the charge can be written down as lack of co-operation, with the sinister implication that protestation of innocence can lead to a heavier penalty.

"The Revenue have tremendous resources and can drag their inquiries out for years," says Andrew Jones, of accountants Ernst and Whinney. "They can and do use their superior resources to chase down 'leads' and work at them until they have a case. If we can get a reasonably fair settlement for clients by negotiation, rather than spend unlimited resources fighting it, we can leave the client to get on with running his business."

TOMORROW

Those who attract the Revenue's eagle eye - and those who have felt its talons

'BEWARE the Ides of March'. Thus was Caesar warned. By coincidence this year's Budget falls on March 15 - the old Roman Ides of March - but we have until April 5 to review our tax position for the current and past years.

This is the month to check that full allowances and reliefs have been claimed within the time limits for income tax, capital gains and inheritance tax purposes.

Separate Taxation of Wife's Earnings: An election for a wife's earnings to be separately taxed can be made or revoked up to 12 months from the end of the tax year to which it relates.

If your total joint income for 1986/87 was over £26,520 you will benefit from being separately taxed, provided the lower of the incomes was not less than £6,986.

Get Inland Revenue pamphlet IR13 from any tax office now.

Personal Allowances: For claims to allowances, you have six years from the end of the tax year in which to make your claim. So, if a claim is made by April 5, you can put right missed claims as long ago as the tax year 1981/82.

If you have been widowed in this period you are entitled to the Widow's Bereavement Allowance for the tax year in which your husband died and the following one. Or if you maintain or financially assist an aged or infirm relative or your own or your wife's widowed, divorced or separated mother, you can claim Dependent Relative Allowance of £100 - or £145 if you are an unmarried woman.

Were you a single parent maintaining a child under 16 - or over if receiving



Beware the Ides of March! Don't come to grief. Check every tax allowance and relief.

full-time education? You were entitled, in 1981/82, to an Additional Personal Allowance of £770, 1987-1988: £1,370.

Capital Gains: March is the month to ensure that you will, by April 5, make use of the annual capital gains exemption of £6,600.

A married couple has only one such exemption but if you have minor children they, too, can each make £6,600 tax-free gains this year.

Inheritance Tax: If, hopefully, you live for seven

years you can give away what you will without fear of inheritance tax. (If you don't survive for seven years after the gift the tax will apply but on a progressively reduced scale.)

There's an annual exemption of £3,000. If you made no gifts in the past tax year you can give away up to £6,000 by April 5.

There are other exemptions too. Up to £250 a year to any number of individuals attracts no tax.

An Easter wedding coming off? Marriage gifts will be left out of your taxable estate up to the following amounts: parents £5,000 each, grandparents £2,500 each, bride and groom £2,500 each to the other, other people £1,000.



INLAND REVENUE
MANAGEMENT DIVISION
SOMERSET HOUSE

From C CHERRY
Tel 01-438 6067
Fax 01-438 7364
Date 3 March 1988

- (1) MR D B ROGERS
- (2) CHAIRMAN *and 3/3*
- (3) CHANCELLOR OF THE EXCHEQUER

TIMES ARTICLES ON COMPLIANCE

3 MARCH 1988

1. The main theme of the article, allegedly supported by a number of specific instances, is that the Department has been unwilling in investigation cases to accept explanations and has persisted with enquiries, thereby putting taxpayers to unnecessary expense and personal distress, but finally agreeing the cases at levels far below the Department's initial claim. A secondary theme is that collection activity is pursued without the underlying facts being checked out and this too causes distress. A third theme is that certain types of business could find themselves discriminated against if the Department has produced guidance about that type of business activity.

cc Financial Secretary
Miss Sinclair
Mr R Allan
Mr Cropper

Chairman Mr Isaac
Mr Painter Mr Rogers
Mr Pollard Mr Beighton
Mr Deacon Mr Roberts
Mr Cherry Mr Stewart
Mr Sullivan Mr Corlett
Miss McFarlane PS/IR

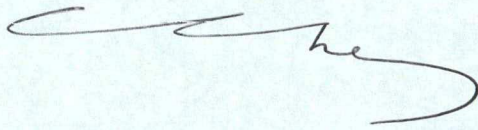
2. As with our comments on the 29 February article we are constrained by the rules of confidentiality from providing full details of these cases but you will see from the article itself that in at least two of the cases the amounts involved were very substantial and that in several of the cases the explanations given were of a kind which prompted the need for reasonable assurance before they were accepted.
3. In two of the cases - Swani and Wood - we have received complaints regarding the Department's conduct but in both cases, after extensive enquiry, we have found those complaints to be unjustified. Swani is now an Ombudsman case but in the light of his initial review his enquiries have been suspended to allow us to continue with the investigation. Attempts to settle that case by negotiation have failed and it is now scheduled to come before the Special Commissioners on 18 March so that they can determine the matters in dispute. The complexity of this case can be judged from the fact that we estimate that it will take us 8 days just to present the facts, as we see them, to the Special Commissioners.
4. As you appreciate we take a pragmatic view about our likelihood of actually collecting tax at the end of any legal action and, in some cases decide not to proceed with time consuming and expensive proceedings if there is no money to fund a settlement should we be successful. Our policy on this can leave our actions open to misinterpretation or distortion by those so disposed. Mr Wood seems to fall into this category.
5. We can be more open about the case of Mr Coy because his appeals were considered by the High Court following a hearing by the General Commissioners. Details of the case are published in tax leaflet 3077. The Inspector was not satisfied that Mr Coy's business records, which consistently showed daily takings of £24 or £25, were complete whilst Mr Coy was unwilling to accept alternative methods of arriving at his profit.

When the case was considered by the Commissioners they having heard oral evidence from Mr Coy found that he had no accurate record of his takings, and determined the assessments to the best of their judgement in figures which lay between those contended for by the Inspector and those put forward by Mr Coy. Their approach to the case and their decision were upheld in the High Court. Mr Coy complains that he could not prove his innocence, therefore he lost; but had he kept proper records he would have had a much better chance of satisfying the Inspector that his affairs were in order and, had the case gone that far, convincing the Commissioners that the assessments raised upon him were excessive.

6. The second theme concerns our collection activity and features the case of Malcolm Arthur. You are aware generally of the liaison difficulties between our assessing and collection arms and the need for the BROCS computer system which will make up to date information on cases more readily available to Collectors. But although the mistake in this case would almost certainly not have happened had BROCS been available I regret to say that this case cannot be excused on those grounds. A number of procedural mistakes were made in the local collection office resulting in the unhappy circumstances reported in the article. We had already apologised to the taxpayer and the accountant and the complaint in this instance is I am afraid justified.

7. Finally the article suggests that the production of our Business Economic Notes stimulate enquiries into certain trades. You will recall that we have produced notes on a number of trades for internal use for some years and that Keith suggested that these should be made public. Our existing notes are not suitable for publication but since last July we have been making newly written notes available to the public. We cannot cover all trades but try to cover those where our Inspectors feel background advice about how the trade operates would be helpful. The purpose of these notes is not to stimulate

enquiries into certain trades but to make Inspectors better informed about particular trades so that when they do investigate they can do so with greater perception and more readily understand what they are being told. We stress continually that individual businesses may well differ from the general run as described in Business Economic Notes.

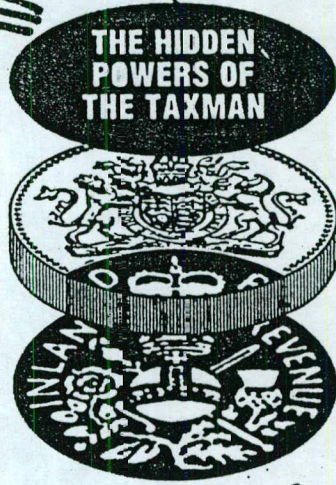
A handwritten signature in black ink, appearing to read 'C Cherry', written in a cursive style.

C CHERRY

The Times

'It was like a state mugging'

14



Victims of the new-style aggressive methods of the Inland Revenue can spend years and a small fortune proving their innocence — and that is if they are lucky. William Greaves and Vivien Goldsmith report on cases where the tax assessors and tax collectors got their lines crossed, and the taxpayer got the fright of his life

When Malcolm Arthur, a businessman and part-time professional singer, arrived home in north London one evening last August, he found a hand-delivered letter from the Inland Revenue. He opened it and went cold. A tax inspector and bailiff had been round while he was out to collect £146.70 "unpaid tax"; if it were not paid immediately his belongings would be distrained or goods seized to the value of the bill.

"It would have been bad enough anyway, but I did not even owe the money," says Arthur. "I had actually received a cheque for almost £1,900 from the tax office two weeks earlier because I had paid too much. The last thing I expected was an Inland Revenue demand to stand and deliver."

His accountant, Garth Pedler, made immediate inquiries, found

out that there had been a communication breakdown between the tax assessors and the tax collectors and elicited an apology. If Arthur had not just received that cheque he would not have known that the assessors had already found in his favour.

"I have had three or four cases of this kind in the last 12 months," says Pedlar. "In one instance the tax inspector agreed to change an assessment he had made. A month later the tax collector started formal proceedings to seize goods to the value of the bill my client no longer owed. It took almost a week to get him to withdraw them."

Birmingham property landlord John Swani would have been delighted with such a speedy resolu-

tion of his problems. During the last seven years he has paid £40,000 on accountants' and lawyers' fees and still owes another £20,000 in a so-far unavailing attempt to clear his name of a Revenue demand for £300,000 in unpaid tax and a further £600,000 in penalties and interest going back more than 20 years.

"You can't claim your costs so you feel obliged to do a deal with the Revenue, but that would be an admission of guilt," says Swani, whose properties house about 60 Birmingham University students. "There is no way of standing up against the Revenue," he says. "The system is geared against the guilty person. But I have to try and prove my innocence."

"I know that small landlords are often suspected of being less than honest, but I have always declared all my income and proper expenses — I am a very good landlord."

Swani's problems began when his bank made a mistake and reported that he had repaid £10,000 more of a loan than he actually had. The bank later corrected the error, but by that time the Inland Revenue had got him in its sights. "I co-operated fully," says Swani, "but every time we were near a settlement, they found something else. Over all those 20 years, my accountant could only find an extra £800 of tax liability, but they would not settle for less than £100,000."

Both Malcolm Arthur and John Swani fell under the taxman's gaze by chance. If, however, they had been road hauliers, small hotel proprietors or travel agents they could rightly blame their choice of

occupation for attracting special attention. Those are just three types of business for which the Revenue keeps "models" — detailed statistics giving at-a-glance norms for acceptable profit levels.

The business of an average travel agent, for instance, is made up of 54.5 per cent inclusive tours, producing a commission of 7.9 per cent, and 31.1 per cent air ticket sales, with 8.3 per cent commission. A specialist firm might produce very different figures — but will have to explain itself in detail to the Revenue.

One tax inspector recalls the pub which was taken to task for its high wastage rate. In that case the publican knew what had caused the departure from the norm: a greater than average distance between the beer pumps and the cellars. If he had not known, his figures would not have been believed.

One phrase which certainly never appears in any Revenue "model" is, "I just do it for the love of it". A leading London accountant recalls the case of the retired racehorse trainer who wanted to put something back into racing. He accepted an honorary position with a racing association, attending committee meetings and race meetings, and the £8,000 a year he received did not quite cover his expenses.

"The Revenue claimed he was concealing a source of income," said the accountant. "The case got as far as being listed for a hearing before the general commissioners before it was settled. The man sadly gave up the post — it was just not worth the hassle."

Thursday, March 3, 1988

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TAXING QUESTIONS OF LIFESTYLE

Anthony Coy is a London taxi driver who is happy with the simple life. He neither smokes nor drinks, never eats out, takes no holidays, — he does not even own a passport — and the family home has no central heating and no double glazing. His television set is black and white; and he has no video. Coy, aged 58, a former apprentice shoemaker, mends the household shoes, and one of his daughters cuts the family's hair.

Such a frugal existence would not be to everybody's liking — and it certainly did not appeal to the Inland Revenue. Why, it demanded, did Coy not work harder? How could he possibly survive on his daily takings of £24 or £25? Did he not know that, according to the Family Expenditure Survey, published by the Department of Employment, he "should" have been spending £11 a week more in the year to April 1984, and £5.50 a week more the next year?

Unprepared to accept that Coy was perfectly happy and saw no reason to work any harder, tax inspectors interrogated him six times, probed every detail of his private life and even demanded to know what he had given his wife for a birthday present. "It was like a state mugging," Coy says.

And then the taxmen turned their attention to what profits they thought he ought to have made. They looked at his spending on diesel, consulted their taxi driver statistics, and concluded that, on the basis of 25.5 miles to the gallon, fare-paying passengers accounting for 55 per cent of his mileage, together with 15 per cent tips, he must have earned £1,000 more than the £6,579 he admitted to for the year ended April 1985.

Not so, said Coy. He liked to work between 6pm and midnight and to cruise in search of work rather than wait at a rank, so his

paid-for miles amounted to no more than 53 per cent. "There isn't the volume of work at night, especially in the winter months," he says. "People don't tend to come into town in the latter part of the evening, so there are many empty return journeys."

Coy took his arguments to the general commissioners and then to the High Court in 1986. It cost him £350 but he could not prove his innocence — so he lost.

It was lifestyle, too, which trapped John Wood, a former builder and central heating engineer, of Bradford — but his problem was that he was living too well. The figures he declared for his firm, claimed the Revenue, could not possibly have provided him with a Mercedes 380SE and a flat in Blackpool. And it was quite right. Over a number of years, Wood had won about £60,000 in various casinos — and had a Press

report of his being banned from one Bradford casino for winning too much to prove his case.

Wood spent seven years and £20,000 in professional fees disputing a claim for £120,000 in unpaid tax and a further £200,000 in penalties and interest. "They never found anything wrong with my accounts but nor would they admit they were wrong," he says. "I challenged them to take me to court but they wouldn't. Eventually, the cost and the worry forced me out of business."

In July last year the tax office agreed to settle — for a one-off payment of £8,000.

TOMORROW

The taxman goeth: why more and more of the gamekeepers are turning poacher

THE INDEPENDENT

Revenue plans probe into Lloyd's accounts

THE INLAND Revenue is planning its most exhaustive study into the accounting arrangements of the business units of Lloyd's, since it gained broader powers to probe its affairs in last year's Budget.

Charles Watt, a tax partner of accountants Ernst & Whinney, told a conference of Lloyd's underwriters yesterday that the new powers granted to the Inland Revenue under the 1987 Finance Act would be used for the first time to examine the accounts of Lloyd's underwriters for the trading period to last December.

Already the Inland Revenue's City 35 section has held a "dry-run" of the type of review it will be carrying out at Lloyd's using the accounts of business units — the syndicates into which Lloyd's investors are grouped — for the previous trading period.

The Inland Revenue has been concerned about the way Lloyd's sets aside large sums of money to provide for future losses. Nearly

£20bn was set aside last year by Lloyd's, far outstripping its underlying premium income of nearly £3bn, to pay future insurance claims. The Revenue has suspected that Lloyd's has used its accounting methods for tax avoidance.

With its new powers, the Revenue, led by top official Christopher Coleman, intends to see that underwriters demonstrate that their assessment of what is needed for future claims is "fair and reasonable". If they do not demonstrate this the Revenue will have the power to disallow the disputed part of the reserving for tax purposes.

Professionals at Lloyd's expect the Inland Revenue will be showing interest in syndicates that insure motor business, which have set aside up to 50 per cent of their premiums for future losses. And the larger syndicates specialising in liability business are expected to come under close scrutiny.



D B Rogers CB
Director General

THE BOARD ROOM
INLAND REVENUE
SOMERSET HOUSE

Telephone: 01-438 6789

4 March 1988

CHANCELLOR

TIMES SERIES ON THE REVENUE: FRIDAY 4 MARCH

1. Today's article is about relations between the Revenue and taxpayers, the "brain drain" of Inspectors into the accountancy profession and our reluctance to respond to these articles. It finishes up with a series of questions.
2. The first part - about good relations - starts with a quotation from the Keith Report and moves into a quotation from the Institute of Taxation on the need for balance which merges into generalisations and anonymised comments of accountants that the balance is already too much one way. The evidence for this one is led to believe has already been given in the preceding articles.

cc Financial Secretary
Miss Sinclair
Mr R Allen
Mr Cropper

Chairman
Mr Isaac
Mr Painter
Mr Rogers
Mr Pollard
Mr Beighton
Mr Roberts
Mr Deacon
Mr Cherry
Mr Corlett
Mr Stewart
Mr Sullivan
Miss McFarlane
PS/IR

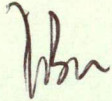
3. Another part "The Lure that turns Gamekeeper into Poacher" is about the loss of Inspectors through resignation. The figures quoted for resignations and recruitment are of the right order; the size of increase in pay on moving to the private sector is also of about the right order for a Grade 7 but tends to be substantially more at higher grades. We know that the substantial increase in pay available in the private sector is a particular attraction. But we are not sitting idle and I attach a list of steps being taken to reduce the effect of resignations. This list was part of the briefing prepared for the Financial Secretary for his recent meeting with the Prime Minister on VFM.

4. A further part of today's article is about our refusal to be interviewed and there is mention of the proximity of the Budget and our wanting to see all the articles: this is true. It is also true that when they were pressing for an interview those who might have been interviewed were not available. The fact is that The Times must have been preparing these articles for some time - witness the TV advertising - and they must have made a deliberate decision not to approach us until the last moment which was at 5.30 on 24 February.

5. The article finishes with a series of questions; those on factual matters such as the investigation system, targets, promotion criteria and the onus of proof are straightforward to deal with. We can also show from the facts that the extreme powers are used only in a handful of the most serious cases, that there has been no shift in the balance of powers against the taxpayer and indeed that improved selection techniques have concentrated efforts on the more serious cases so that the innocent are less likely to have become involved. There has been no pressure on Inspectors in recent years to take a more aggressive stance and there are safeguards against both over assessment and

the abuse of power to which we can point, for example, as set out in the Taxpayers Charter.

6. We hope to get a draft of our riposte, to which you have agreed, to the Financial Secretary very shortly.



D B ROGERS

SHORTAGE OF INSPECTORS

There are two streams of Inspectors - the fully trained (NFT) and non fully trained (NFT).

Measures taken to reduce the shortage:

FT

- (1) Exit London - around 185 posts dispersed to provincial cities to avoid unwelcome transfers to London which cause many resignations. These posts are in tax offices and in Head Office.
- (2) Transfer terms: in response to pressure - much of it from here - the Treasury has introduced a large improvement for transfers to London.
- (3) Compulsory transfers - reduced to a minimum.
- (4) Reinstatement: scheme introduced for those who have left largely for domestic reasons - typically women Inspectors leaving to have babies.
- (5) The incidence of management training has been changed to provide a once-and-for-all boost of around 55 inspectors at Grade 7 level.
- (6) Big drive to increase recruitment both externally and internally. Very successful over the last 18 months.
- (7) Through the Treasury increasing pay by improving allowances at HEO level and introducing new allowances at Grade 7 level.

- (8) Taking every opportunity to impress on the Institute of Chartered Accountants and the accountancy firms themselves the damage they are doing to us by the number of Inspectors they are recruiting. The losses are increasing alarmingly in recent months.
- (9) Welcoming back by reinstatement those who do not find the private sector to their liking.

NFT

- (1) Identifying improvements in the career structure.
- (2) Direct recruitment of Inspectors at HEO level (first time every tried).
- (3) Intensive selection of candidates for Inspector training - a large increase achieved in the number selected over the last 12 months or so.

Items 2, 3 and 4 in the FT measures apply to NFT also.

The impact of the shortages is felt mainly in the tax office network but is being felt more and more in Head Office. The shortage means that vacancies are left unfilled and the effect is reflected in the level of the advice provided to tax offices and (indirectly) to Ministers, the drop in our investigation coverage and the adjustments which come from examination of the larger company accounts. The latter two items are highly cost effective.

SPECTRUM

A system out of balance



Has the Inland Revenue become too aggressive? Is the taxpayer deemed guilty unless proved innocent? At the end of our series these are the

questions that demand an answer, but David Brewerton met only silence from the officials at Somerset House

The manner in which the departments are perceived by the public operate is of extreme importance from the point of view of the avoidance of friction and the smooth running of the system. Good relations between officers of the departments and members of the taxpaying public are essential, and every effort must be made to achieve this.

So reported the Keith Committee, which was set up in 1980 to review the enforcement powers of the Revenue departments: the Inland Revenue and the Customs and Excise. Half a decade after the first volume of the Keith Report was issued, there is an uneasy feeling that relations between revenue officers and members of the taxpaying public are getting worse, rather than better.

Professional accountants such as Andrew Jones, tax partner with

the internationally respected firm of Ernst & Whinney, and Jeremy Allan and David MacLean of Arthur Young, do not easily agree to be quoted in the national Press. Their willingness to speak of the state of relationships between the tax gatherers and the taxpayers is indicative of their concern.

But it is not only the accountants and the taxpayers who are concerned. One tax inspector who contacted *The Times* this week said: "I'm horrified by some of the things that are going on."

The lure that turns gamekeeper into poacher

A taxpayer in the north of England was investigated for two years because his annual personal income of £15,000, together with his wife's salary of £6,000, did not seem sufficient to support his modest way of life. Iain McGuire, national tax research manager for accountants Hodgson Impey, recalls how his firm's client was recently relieved of suspicion: "We pointed out that the amount available for him to live on considerably exceeded the Inspector's own salary and that no doubt his own affairs were therefore subject to an investigation by the Inland Revenue!"

It was probably one of the most good-natured settlements on record — but the anecdote conceals the biggest headache currently inflicting the Revenue. A fully-trained inspector of taxes is not well paid for his skills. And if his grade produces an annual income of £20,000, then he can expect an

increase of at least £10,000 the moment he agrees to defect and join an accountancy firm.

With 120 inspectors resigning during 1987, last year was the worst on record. Among inspectors approaching the end of their three-year training, the resignation rate was nearly 12 per cent and little official comfort could be provided by the 152 new entrants who took up duty. "One wonders how many of these will still be in post three years hence," demands an editorial in the magazine of the Association of Inspectors of Taxes, "and how much of an estimated £50,000 per head training cost will have been used as a disguised subsidy for the accountancy profession." The total cost of training last year's defecting inspectors amounted to about £6 million.

He feels that some inspectors are less than honest about the scope of their powers. For instance, they will go on "fishing" trips when their code of conduct states that they should give reasons for an investigation.

The tax system can function properly only with the co-operation of both the professions and the public, a point which was made forcibly by The Institute of Taxation, a body comprising both lawyers and accountants, in a recent letter to the Inland Revenue.

The latest annual report of the Board of Inland Revenue readily recognizes the crisis: "We men-

tioned (in the previous year's report) the marked increase in the level of resignation in some parts of the Department in recent years. There remains a major problem, and in some areas the position has worsened." The report claims that the private sector also suffers from a high turnover of staff, but acknowledges that "unlike them, we are not able to recruit experienced staff".

So why do the Revenue's gamekeepers prefer the life of a poacher? Rick Helsby, aged 39, who left to join Deloitte Haskins and Sells, one of the world's top eight firms of chartered accountants, gives as his reason "disenchantment with the current rates of pay and disenchantment with my prospects for the future. Outside companies offer significantly more in the way of pay and prospects".

Although the "brain drain" into the private sector would appear to

Responding to proposals which would give the Inland Revenue further powers, the Institute said the proposals "are too heavily weighted against the taxpayer and in favour of the Inland Revenue", and they would need the wholehearted support of the professions most closely affected.

That balance is, in the eyes of many accountants, far from equilibrium at the present time. The revenue, as one accountant observed, has all the powers. The taxpayer has none.

This is more important than mere courtesy to the taxpayer, although that is the least one should be able to expect from any government department. As the Institute points out, if tax rules are seen as unfair, there is a very real

CONT...

be of greater benefit to the taxpayer rather than his pursuer, many accountants blame the new aggressiveness within the Revenue for the need to develop their own counter-investigation departments. "Small accountants are having to consider mergers in order to get a tax expert into the partnership," says Monroe Palmer, of London accountants Palmer Marshall.

And another leading London accountant voices a fast-growing concern within the profession: "When the Revenue set up its special investigation offices it selected its best-trained people for the job. Many of these people have now left its service. One doesn't object to greater power so long as it is accompanied by greater responsibility — but this no longer seems to be the case."

William Greaves and Vivien Goldsmith

CONT...
 danger if they will not work, or that there would be "a very marked and rapid shift towards more adversarial relationships between the departments and taxpayers, with both sides adopting extremely aggressive technical positions."

"Anecdotal evidence suggests that that situation already exists in certain other countries and that, overall, the tax revenue yield declines rather than increases, and that there is no positive impact on the 'black economy'."

This week *The Times* has asked repeatedly for an interview with the appropriate Revenue officials to explore some of the many issues of concern raised by the series. We were told that this time of year, just weeks away from the Budget, is very busy for the Inland Revenue. On another occasion we were told that the person who would make the decision on whether or not to "grant" an interview was out of the office. Then we were informed that the Inland Revenue wished to see all the articles before deciding whether or not to be interviewed.

Finally, yesterday morning, *The Times* was informed that the Inland Revenue would not agree to an interview, nor would it respond to written questions.

"In reply to your request for an interview on this week's Spectrum articles, we would first like to see the full series of articles before considering inviting you to publish a written response," the Inland Revenue said.

Even if the Inland Revenue will not answer questions in public, there are many questions which it should ask itself:

- What has become of the Taxpayers Charter?
- Why are leading accountants prepared to risk their long term relationships with the Inland Revenue to draw attention to current problems?
- Can the Inland Revenue explain why relations between its inspectors, the professions and the public seem to be getting worse?
- Are the targets set for the amount of tax to be raised from investigation work leading to over-enthusiastic action by individual inspectors?
- Is it true that career prospects within the Inland Revenue are determined by the amount of extra tax that individuals manage to collect? Are these amounts monitored? Are targets set?
- Why do taxpayers fear that if they complain they will be "hounded" for years afterwards?
- Why do taxpayers feel they have to prove their innocence, rather than the onus of proof resting with the Inland Revenue?
- Is the Inland Revenue guilty of bullying?

This last question I put to Andrew Jones, tax partner of Ernst & Whinney.

"The situation is combative," he replied. In the careful language of accountants, nothing more need be said.

The Guardian

Tax cuts would 'not make us work harder'

Economics Staff

FURTHER cuts in the basic rate of income tax — the Chancellor's most cherished ambition for the budget — would not make people work harder, according to one of Britain's leading tax specialists yesterday.

Professor Charles Brown of Stirling University, who has acted as a consultant to the Treasury on the effects of tax cuts, said that there was "very strong evidence" that there was no case for basic rate income tax cuts on the grounds of work incentives.

Speaking at a lunchtime seminar of the Public Finance Foundation, Professor Brown said that there was also moderately strong evidence that cutting higher income tax rates would not increase incentives, though less research had been done in that area.

The case for tax cuts rested on the possibility that the electorate would prefer lower taxes to more spending, macro-economic arguments about the effect on imports and wages, and that cuts in income tax were preferable to cuts in other taxes. He was unpersuaded by any of those arguments, but thought that there might be some efficiency gains from lower rates of tax on extra income, and more equal rates.

If the need to influence wages was paramount, it would surely be more efficient to cut Value Added Tax. There was a strong case this year for cutting mortgage tax relief, which would tend to reduce house prices, because the new poll tax would tend to raise them.

Tax rate cuts 'will not be incentives'

25 By Rodney Lord, Economics Editor

Cuts in the basic rate of income tax will not increase work incentives significantly, said the author of a Treasury-sponsored study on the subject yesterday. Nor are cuts in the higher rates likely to do so.

Speaking at a Public Finance Foundation seminar, Professor CV "Chuck" Brown of Stirling University, said the case for lower income tax rates rested more on the possible gains in allocation of resources from leaving more spending decisions to individuals.

Professor Brown believes, however, that if marginal rates are reduced, average tax rates should be kept more or less where they are.

This means that while the

Inland Revenue would take a smaller proportion of each extra pound earned, taxpayers would still pay a similar amount of tax on their income as a whole.

One option would be to cut the basic rate to 25p in the pound and have a single higher rate of 35 per cent while removing the ceiling on employees' national insurance contributions which would then be payable all the way up the income scale.

He felt it would be a particularly good moment also to limit mortgage interest relief. This would help to reduce house prices at a time when the abolition of rates is likely to raise them.



*That is a v. good
 said, this Mr B will
 Burns want to push
 further - it is a little
 I have a long list.
 I have a committee
 as a
 commission
 person.
 RISA has
 the work in hand.*

INLAND REVENUE
 CENTRAL DIVISION
 SOMERSET HOUSE

*I am putting this to
 you now as the Denis
 seem to want it very
 early next week. I shall want
 to look at it again carefully.*

FROM : L J H BEIGHTON
 DATE : 4 March 1988

1. CHAIRMAN

2. FINANCIAL SECRETARY

TIMES SERIES ON THE REVENUE

The Chancellor asked us (Mr Taylor's minute of 3 March) to put to you a draft article in response to the series in the Times. I attach a first draft accordingly based on the contributions of the Board and other colleagues. We shall all want to look at it again over the weekend and we may want to suggest changes ourselves. However we thought that you might also wish to see it at this stage.

On one detailed point, the Chancellor suggested that it might be worth expressing the figure of £1.7bn in terms of the number of new hospitals or such like. Curiously, no one (not even in Mr Moore's office) has been able to give us the cost of a hospital (of whatever size). So we have expressed the figure as 8% of the cost of the National Health Service but this is a point which you may wish to consider in particular.

L J H

L J H BEIGHTON

-
- | | | |
|----------------------------------|-------------|----------------|
| cc Chancellor of the Exchequer — | Mr Isaac | Mr Crawley |
| Miss Sinclair | Mr Painter | Mr Deacon |
| Mr Allen | Mr Rogers | Mr P B G Jones |
| Mr Cropper | Mr Beighton | Mr Roberts |
| | Mr Cherry | Miss McFarlane |
| | Mr Corlett | PS/IR |

I am concerned that the Spectrum series last week by William Greaves, Vivien Goldsmith and David Brewerton will cause a lot of unnecessary anxiety on the part of millions of ordinary taxpayers who have absolutely nothing to fear from the Inland Revenue.

It has also caused dismay among ordinary Inland Revenue staff doing a difficult job serving the public and who cannot understand why the Department should be so misrepresented.

To judge from the series one might think that the Inland Revenue and the leading accountancy firms are in open warfare. This is far from the truth. The many accountants with whom I come into contact in the course of the year greatly value, as I do, the good working relationships which exist between the accountancy profession and the Department up and down the country.

Our tax system is, and always has been, based on consent. There must be mutual trust between taxpayer and tax gatherer. Inevitably difficulties and disputes arise in individual cases: it would be surprising if that were not so. No-one likes paying tax, and those trying to evade their share do not like being found out and brought to book. Of course they do not.

But those cases are in a tiny minority, and they take only a small part of our Inspectors' time.

So what are the facts?

Let me begin with the Taxpayer's Charter which we published last year. That sets out very clearly the rights and obligations of taxpayers, and what they should do if they feel they have been unfairly treated. It rightly says:

"You will be presumed to have dealt with your tax affairs honestly unless there is reason to believe otherwise".

We stand by that. And the overwhelming majority of taxpayers know that to be so.

So what about "the horror stories of dawn swoops by teams of black-coated men clutching Gladstone bags" mentioned in last Tuesday's piece and "the dawn raids" that featured on Wednesday?

Yes, the law does give the Revenue the power to search premises and remove documents where there is reason to believe that evidence will be found of tax fraud. But Parliament has circumscribed that power very carefully. All such cases are scrutinised by myself and my colleagues on the Board personally beforehand. We must then satisfy a Circuit Judge that our grounds for suspicion, and our need to search, are justified, and obtain an order to that effect. And we must take care to conduct our search in a proper manner, with full regard for the taxpayer's rights.

But let me make it clear. The ordinary, honest taxpayer has nothing to fear. We have used this power of search exactly twenty times in the last six years. Leaving aside those still under investigation, all but two cases resulted in a criminal prosecution for tax fraud.

What then of our run-of-the-mill investigation work? Certainly part of our job is to track down people operating in the black economy trying to escape tax. And most of those who speak to me think we are right to do so. Why, they ask, should a few people get away with it when the rest are paying their tax promptly and without argument.

And what about our investigation of company accounts and those of small businesses?

First, let me say I deplore the use of such terms as "hit squads": they are offensive as well as inaccurate. Second, the facts speak for themselves. Every year, the Inland Revenue accepts without enquiry the vast majority of business accounts. We currently investigate only some 2% of self-employed businesses, and 1% of company accounts where something seems to be wrong and profits may be understated, whether intentionally or not. It is our job to do that, under the law, and I believe the public expect us to do it properly. That includes businessmen who complain about unfair competition from the

more than a few!

small minority escaping tax. But the important point is that most businesses, as one would expect, deal with their tax affairs properly and are never remotely likely to be the subject of an Inland Revenue investigation.

Nor, despite the remarks attributed to Jeremy Allan and David MacLean from the accountants Arthur Young, do we have "cash collection targets imposed . . . by Government". I do not know where this idea comes from. It is emphatically not true. What is expected of the Inland Revenue is that we try to collect the right tax efficiently and effectively. After all, we are spending taxpayers' money as well as collecting it.

Promotion within the Inland Revenue does not depend on how much tax an individual brings in, but how he or she does his job in the round. We do have efficiency targets these days, for the amount of work to be got through, for the number of cases to be looked at and settled, for assessments to be made by a certain date, and so on. But we do not believe in setting our Inspectors cash targets in terms of tax and have never done so.

That is not to say that they do not bring in a lot of extra tax that would otherwise probably not have been paid. They do. About £1.3/4 last year, ~~equivalent to about 8% of the cost of the National Health Service.~~ Raising that sum from taxpayers generally would mean an extra penny on the basic rate of income tax.

*Not work
low in the
tax.*

To be more cost effective the Department has certainly had to change. These days we spend as little time as possible on trivial enquiries of taxpayers whose affairs are in order. That allows us to concentrate rather more on those that are not. That is why the proportion of investigations giving rise to interest and penalties has gone up, although the total has declined. It is not because of any new hard line by Inspectors. Indeed, because we are concentrating more on the serious cases, innocent taxpayers are less, not more, likely to find their affairs under investigation.

Great play was made in Thursday's article about "models" giving Inspectors "at a glance norms for acceptable profit levels". Certainly we prepare guidelines about many lines of business to help Inspectors understand how they operate. But there is nothing sinister in this. Indeed, six of these Business Notes have already been published, and others will follow. But they are not followed slavishly: the staff know that all businesses do not conform to the same pattern. It is not a black mark if an Inspector finds that everything is in order, closes down the investigation and puts the papers away.

Yes we sometimes make mistakes. What organisation with over 25 million customers would not? I regret them, because they can cause anxiety and distress. We are doing all we can to eliminate them. There are still too many communication problems between Inspectors and Collectors, with demands for tax which we have agreed is not due. In this respect our new computer systems should help to improve things.

On grounds of confidentiality, I have been careful not to offer any comment on particular taxpayers mentioned in the series. Like everyone else in the Inland Revenue I must remain silent about people's tax affairs. But there are nearly always two sides to every story, and different people may see the same set of facts differently.

An MHP Job

A Committee under Lord Keith looked into the enforcement powers of the Inland Revenue and Customs and Excise. After looking at a number of complaints the Committee described the broad approach of our Inspectors on investigations as "reasonable and appropriate". And they concluded that "It is therefore necessary for the revenue gathering Departments to have an adequately equipped armoury of coercive powers to deal with the recalcitrant minority". The Keith Committee recommended that we should give more explanation to taxpayers under investigation. We have done so, and a new set of leaflets, available from tax offices, tells taxpayers about investigation and what they should do if they become involved.

Every year the Parliamentary Commissioner for Administration, the Ombudsman, sends me complaints of alleged maladministration by the Inland Revenue. Only three investigation cases in the last few years have involved complaints of harassing small businessmen. In each the Parliamentary Commissioner found that, although mistakes had been made, they did not amount to harassment.

The last article in the series posed a number of questions for the Inland Revenue. I have already answered most of them. We were also asked why taxpayers fear that if they complain they will be "hounded" for years afterwards. The answer is that they need not, and I would like to hear from anyone who feels that he or she has been hounded. The Board would certainly not countenance bullying of any taxpayer.

Our staff are public servants. They are there to serve the public, and that is what they want to do. Most people I talk to think they are succeeding most of the time.



*MS The Chair of the Bd of IR is a request
Chy Person (at Home or public), or shd
OK - Content with this
revised article (FT had one minor
amendment to the first line). 2/8/3
So Anthony
Mr Tony
for next papers.*

INLAND REVENUE
CENTRAL DIVISION
SOMERSET HOUSE

FROM : L J H BEIGHTON
DATE : 7 March 1988

10/7/3
1. CHAIRMAN

2. FINANCIAL SECRETARY

*I am now content with this in
your name. If it is overlong no doubt
the Times will take us.*

*The danger is
that they will
say they cut it
& omit important
parts. It should be
made clear to
them that
they
mustn't.*

TIMES SERIES ON THE REVENUE

I attach a revised version of the article for the Times reflecting your comments and those of the Chancellor. I have also had a very helpful conversation with Mr Cropper but Mr Tyrie (who you also asked to comment) has been fully involved in meetings connected with the Budget and has not yet been able to look at it. We have also made a number of other mainly minor changes.

We have fully followed the gist of your suggestions but in one or two cases not their detail. In particular, we have not listed at the outset all the inaccuracies and wrong facts, partly because some of them are difficult to describe briefly and partly because that would give them further prominence. Instead we have beefed up the criticisms of them as we have gone along. Nor have we named Arthur Young at the beginning: the firm gets a mention later and in any

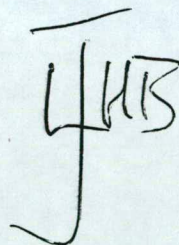
cc Chancellor of the Exchequer
Miss Sinclair
Mr Allen
Mr Cropper
Mr Tyrie

Chairman
Mr Isaac
Mr Painter
Mr Rogers
Mr Pollard
Mr Miller
Mr Beighton
Mr Cherry
Mr Corlett
Mr Crawley
Mr Deacon
Mr P B G Jones
Mr Roberts
Miss McFarlane
PS/IR

event these articles stem partly from their desire to drum up business. Again, we do not want to give them a greater prominence.

On a substantive point, we have not refuted the point in the last article, that there has been a decline in quality because of the drain of Inspectors to the private sector. This is, alas, only too true. Whereas a number of years ago it was mainly disappointed Inspectors that left, today some of those who go are among the very best. They are head-hunted by those who have already gone out with a deliberate attempt that they should form a team of first class ex-Revenue Inspectors. Fewer of the replacements coming forward out of training - in so far as they do not go straight into the private sector - are the sort who will be suitable for senior jobs in due course.

The Times would like the article now as soon as possible. Accordingly, if you are able to approve it early in the morning it would be possible to get it to them in time for it to appear on Wednesday.

A handwritten signature in black ink, consisting of the letters 'L J H' stacked vertically with a horizontal line above the 'L' and a long vertical stroke extending downwards from the 'J'.

L J H BEIGHTON

Article by Tony Battishill, Chairman of the Board of Inland Revenue

I am concerned that the ^{with more sensational claims} inaccuracies in the Spectrum series last week by William Greaves, Vivien Goldsmith and David Brewerton will cause a lot of unnecessary anxiety on the part of large numbers of ordinary taxpayers who have absolutely nothing to fear from the Inland Revenue.

They have also caused dismay among Inland Revenue staff doing a conscientious job and who cannot understand why the Department should be so grotesquely misrepresented.

To judge from the series one might think that the Inland Revenue and the leading accountancy firms are in open warfare. This is far from so. The many accountants with whom I come into contact in the course of the year greatly value, as I do, the good working relationships which exist between the accountancy profession and the Department up and down the country.

Our tax system is, and always has been, based on consent. There must be mutual trust between taxpayer and tax gatherer. Inevitably difficulties and disputes arise in individual cases: it would be surprising if that were not so. No-one likes paying tax, and those trying to evade their share do not like being found out and brought to book.

But those cases are in a minority, and they take only a small part of our Inspectors' time.

So what are the facts?

Let me begin with the Taxpayer's Charter which we published last year. That sets out very clearly the rights and obligations of taxpayers, and what they should do if they feel they have been unfairly treated. It rightly says:

"You will be presumed to have dealt with your tax affairs honestly unless there is reason to believe otherwise".

We stand by that. And the overwhelming majority of taxpayers know that to be so.

What about "the horror stories of dawn swoops by teams of black-coated men clutching Gladstone bags" mentioned in last Tuesday's piece and "the dawn raids" that featured on Wednesday?

Yes, the law does give the Revenue the power to search premises and remove documents where there are reasonable grounds for suspecting a crime involving tax fraud. No other major country tries to tackle fraud without a power of this kind. But Parliament has circumscribed our use of that power very carefully. All such cases are scrutinised by myself and my colleagues on the Board personally beforehand. We must then satisfy a Circuit Judge that our grounds for suspicion, and our need to search, are justified, and obtain an order to that effect. And we must take care to conduct our search in a proper manner, with full regard for the taxpayer's rights.

But let me make it clear. The ordinary, honest taxpayer has nothing to fear. We have used this power of search only eleven times in the last three years and other powers to require taxpayers to produce documents in only 25 cases.

What then of our run-of-the-mill investigation work? Certainly part of our job is to track down people operating in the black economy trying to escape tax. Most people I meet think we are right to do so. Why, they ask, should some people get away with it when the rest are paying their tax promptly and without argument.

And what about our investigation of company accounts and those of small businesses?

First, let me say I deplore the use of terms like "hit squads" which are offensive as well as inaccurate. Second, the facts speak for themselves. Every year, the Inland Revenue accepts without enquiry the large majority of business accounts. We currently investigate only some 2% of self-employed businesses, and 1% of company accounts, the cases where something seems to be wrong and profits may be understated, whether intentionally or not. It is our job to do that, under the law, and I believe the public expect us to do it properly. That includes businessmen who complain about unfair competition from the small minority escaping tax. But the important point is that most businesses, as one would expect, deal with their tax affairs properly and are never remotely likely to be the subject of an Inland Revenue investigation.

Nor, despite the remarks attributed to Jeremy Allan and David MacLean from the accountants Arthur Young, do we have "cash collection targets imposed . . . by Government". I do not know where this idea comes from. It is emphatically not true. What is expected of the Inland Revenue is that we try to collect the right tax efficiently and effectively. After all, we are spending taxpayers' money as well as collecting it.

Promotion within the Inland Revenue does not depend on how much tax an individual brings in, but how he or she does the job in the round. We do have efficiency targets these days, for the amount of work to be got through, for the number of cases to be looked at and settled, for assessments to be made by a certain date, and so on. But we do not believe in setting our Inspectors cash targets in terms of tax and have never done so - something else the articles got wrong.

That is not to say that Inspectors do not bring in a lot of extra tax that would otherwise probably not have been paid. They do. About £1.3/4 last year from investigation work of various kinds and from their adjustments to business accounts. Raising that sum from taxpayers generally would mean an extra penny on the basic rate of income tax for every taxpayer.

To be more cost effective the Department has certainly had to change. These days we are better at identifying the cases that need investigation; and we spend as little time as possible on minor enquiries of taxpayers whose affairs are broadly in order. That is why the proportion of investigations giving rise to interest and penalties has gone up, although the total has declined. It is not

because of any new hard line by Inspectors. Indeed, because we are concentrating more on the serious cases, innocent taxpayers are less, not more, likely to find their affairs under investigation.

Great play was made in Thursday's article about "models" giving Inspectors "at a glance norms for acceptable profit levels" in different kinds of business. Certainly we prepare guidelines to help Inspectors understand how different trades operate. But there is nothing sinister in this. Indeed, six of these Business Notes have already been published, and others will follow. But they are not followed slavishly: the staff know that all businesses do not conform to the same pattern. It is not a black mark if an Inspector finds that everything is in order, closes down the investigation and puts the papers away.

Yes we sometimes make mistakes. What organisation dealing with over 25 million people would not? I regret them, because they can cause anxiety and distress. We are doing all we can to eliminate them. There are still too many communication problems between Inspectors and Collectors, with demands for tax which we have agreed is not due. In this respect our new computer systems should help to improve things.

On grounds of confidentiality, I have been careful not to offer any comment on particular taxpayers mentioned in the series. Like everyone else in the Inland Revenue I must remain silent about people's tax affairs. But there are nearly always two sides to every story.

An independent Committee under Lord Keith of Kinkel looked into the enforcement powers of the Inland Revenue and Customs and Excise. After looking at a number of complaints the Committee described the broad approach of our Inspectors on investigations as "reasonable and appropriate". And they concluded that "It is therefore necessary for the revenue gathering Departments to have an adequately equipped armoury of coercive powers to deal with the recalcitrant minority". The Keith Committee recommended that we should give more explanation to taxpayers under investigation. We have done so, and a new set of leaflets, available from tax offices, tells taxpayers about investigation and what they should do if they become involved.

Our general approach however has not changed. Every year the Parliamentary Commissioner for Administration, the Ombudsman, sends me complaints of alleged maladministration by the Inland Revenue. Only three investigation cases in recent years have involved complaints of harassing small businessmen. In each case after a full examination the Parliamentary Commissioner found that, although mistakes had been made, they did not amount to harassment. Here again the facts fail to bear out the allegations. The recovery of tax due, as long as it is done reasonably, does not amount to harassment.

The last article in the series posed a number of questions for the Inland Revenue. I have already answered most of them. Of course we have to ask taxpayers from time to time to prove their case, but this is because only the individual knows the full facts about his or her circumstances. // We were also asked why taxpayers

fear that if they complain they will be "hounded" for years afterwards. The answer is that they need not, and I would like to hear from anyone who feels that he or she has been hounded. The Board would certainly not countenance bullying of any taxpayer.

Our staff are public servants. They are there to serve the public, and that is what they want to do. Most people I talk to think they are succeeding most of the time.