



Prime Minister (2)
 To note that Chancellor proposes
 to implement VAT part of Keith
 report in 1985 Finance Bill

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PRIME MINISTER

VAT RECOMMENDATIONS OF KEITH REPORT

At the beginning of this year, the Inland Revenue and Customs and Excise reported to me on the outcome of their extensive consultations with interested trade and professional bodies on the recommendations contained in Volumes 1 and 2 of the Keith Report on the Enforcement Powers of the Revenue Departments. Although the reaction to individual proposals was predictably mixed, the majority view was that taken as a whole the Report was a fair and balanced one, and that if the Government decided to implement it, we should treat it as an integrated package of measure designed both to improve tax compliance and to provide enhanced safeguards for taxpayers.

2. It has subsequently become clear that the Keith recommendations affecting the Inland Revenue require fairly lengthy further consultation with the legal and accountancy professions, and that it would be unrealistic to think in terms of implementing legislation before the 1986 Finance Bill at the earliest. On the Customs side, however, the recommendations on VAT enforcement are more straightforward, and the Department are confident that implementing legislation could be ready in time for next year's Finance Bill. There are substantial benefits in early and separate action on the VAT front, where the low level of compliance has long been a source of concern and has led to repeated criticism by the Public Accounts Committee. Customs estimate that over a three to four year period, implementation of the main Keith proposals for default interest and civil penalties should halve the average outstanding VAT debt of £1.5 billion, bring in over £40 million a year in penalty and interest charges, and enable them to make very substantial savings in the enforcement staff who at present have to be diverted from the more productive day-to-day control of the tax.

3. From the taxpayers' point of view the main advantage of implementing Keith would be that breaches of the regulatory provisions of the VAT law would



no longer be treated as criminal offences. Instead, there would be the certainty that specified defaults would involve particular consequences with the present, very wide, degree of official discretion being reduced to a minimum. The further controls proposed by the Committee on the use of powers of search should also do much to meet the disquiet which has sometimes been expressed about this.

4. I have accordingly decided that any VAT legislation on Keith should be included in the 1985 Finance Bill, with any Inland Revenue legislation being deferred to the 1986 Bill. This decision was announced on 18 May in response to an arranged Question (OR Vol. 60 No. 158, Col. 270 to 271).

5. I believe that - with the exception of those proposals affected by the Police and Criminal Evidence Bill or concerned with the treatment of professional privilege, where wider considerations are involved - implementation of the VAT proposals as a well-balanced package would lead to very substantial improvements in the effectiveness and fairness of the VAT system, and would go a long way to meet the anxieties of the Public Accounts Committee. I have therefore authorised Customs to continue with preparations for implementing legislation in the 1985 Finance Bill. I have asked them to consult other interested Departments on individual recommendations, and to prepare for my consideration a draft White Paper and draft clauses for publication in the autumn.

A handwritten signature in black ink, appearing to be 'N.L.'.

(N.L.)

10 July 1984

COUCHNETOI

11 - JUL 1984

