

CC/BI



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

2 September 1985

David Norgrove Esq
10 Downing Street
LONDON SW1

Prime Minister 21

Dear David,

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Wyn

Agree to note the explanations and regret offered by Customs and urge the need for sensitivity in all matters, including those which fall to the Inland Revenue?

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PRESS ADVERTISEMENT: KEITH PACKAGE

You wrote to me on 5 August expressing the Prime Minister's concern about the Customs and Excise advertisement which appeared in the national press on 2 August.

The Keith package in this year's Finance Act represented, in total, the largest change to VAT legislation since its inception in 1973 and, mainly because of the extensive computer reprogramming which is necessary, has to be implemented in stages. The default (including late payment) surcharge, together with the reasonable excuse safeguard, you referred to in your note will not be implemented until the autumn of 1986, and the serious misdeclaration provisions, together with the reasonable excuse safeguard, will not be implemented before July 1988.

A leaflet setting out the changes effective from Royal Assent, which covers the substitution of civil remedies for criminal penalties and all rights of appeal, including reasonable excuse, will be included in traders' next VAT returns. Because these leaflets would not be received by traders before September, Customs and Excise considered it right, immediately following Royal Assent, to advertise in the national press drawing attention to the changes which would have the most immediate impact and not leave them disadvantaged for the lack of any clear communication. The changes with most immediate impact were those relating to VAT records and registration. No impression of hostility or oppressiveness towards small businesses was intended but with hindsight Customs and Excise regret that insufficient attention was paid to the presentational aspects of the advertisement and appreciate the Prime Minister's comments.

Customs and Excise have emphasised the balanced nature of the package to their own staff, together with the expectation of businesses of sympathetic consideration while they adjust to the new circumstances (see the attached extract from the instructions to VAT officers).

If it is necessary to issue a press advertisement before the implementation of default surcharge in 1986, Customs and Excise will ensure that the presentation is balanced and draws attention to the trader's rights of appeal.

Yours sincerely,

Phil Wyn Owen

P WYNN OWEN
Assistant Private Secretary

1.1 Background

In July 1980 the Government set up an independent committee of inquiry into the tax enforcement powers of Inland Revenue and Customs and Excise. The Committee was chaired by Lord Keith of Kinkel, one of the Law Lords. Other members were representative of business interests, the legal and accounting professions, tax specialists and trade unions. Officials from both of the revenue departments were seconded to act as secretaries. During the inquiry about 250 individuals and organisations gave evidence.

In March 1983 Volumes 1 and 2 of the Keith Report were published, dealing mainly with income tax and VAT powers. In July the first consultative exercise invited interested parties to comment on the recommendations of Volumes 1 and 2. In November 1984 Customs and Excise published a consultative document called "The Collection of Value Added Tax" which included draft legislation to implement the bulk of the VAT recommendations. In response to this second round of consultation the views of some 140 organisations and individuals were received and considered before amended draft legislation was published in the 1985 Finance Bill.

This book is a guide to the Keith recommendations, the resulting legislation in the 1985 Finance Act and how the changes in the law are to be applied.

The changes are the most radical since the introductions of value added tax in 1973. The package is a balanced one: officers' powers have been increased in some areas, but there are also increases in the rights of a trader in others. When you apply the new powers, you must remember that the interests of private citizens are going to be affected by your actions. You are also to bear in mind that citizens have a right to expect, not only that

their affairs will be dealt with effectively and expeditiously, but that their personal feelings, no less than their rights as an individual, will be sympathetically and fairly considered.

The Keith Report commented that "tax gatherers have been unpopular throughout history". These changes in the law are not likely to alter that situation, but your attitude and approach will materially affect the level of co-operation you receive.

ECON POL: Budget; Pt 14.

