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10 DOWNING STREET

From the Private Secretary

2 December 1985

TAX AMNESTY

The Prime Minister was grateful for the Chancellor's minute of 21 November. She accepts that it would be better to hold over the possibility of a tax amnesty until the relevant Keith powers are in place.

(David Norgrove)

Philip Wynn Owen, Esq.,
HM Treasury.

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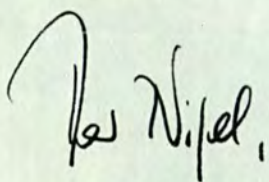
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The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
LONDON
SW1

28 November 1985


IMPLEMENTATION OF THE KEITH REPORT

Thank you for copying to me your minute of 8 November to the Prime Minister. ✓

I welcome your decision to delay the implementation of the Keith Report on Inland Revenue Taxes and to consult more widely. I share your belief that we need to ensure that we consult small businessmen and taxpayers. I also believe that we will need to seek some more direct ways to consult them than simply issuing a consultative paper.

I am pleased that the balance of your consultations so far have pointed to a rather more flexible system than Keith recommended and a system with stronger safeguards for the taxpayer. I know that you are aiming to produce a balanced package but I am a little concerned that most of the proposals in your annex produce extra revenue and that none, so far as I can see, will lead to revenue losses.

I also share Norman Tebbit's concern over the burden of form filling and record keeping and particularly over the impact of a system of penalties. Presumably the longer period of consultation will allow the normal cost compliance assessment to be applied to these proposals, following the White Paper on "Lifting the Burden". I would certainly hope that we could consult business closely and consider the compliance costs of these proposals.



I know that you are well aware of the concern over some aspects of the implementation of the Keith recommendations on Customs and Excise. I would hope that the approach you are suggesting will prevent such difficulties occurring over the Inland Revenue. Indeed, it might be consistent with the substance and tenor of this approach, for us to reconsider some of the Customs and Excise changes, particularly over penalties and record-keeping. I would hope that this might be possible bearing in mind the further White Paper on deregulation next Spring.

I am copying this letter to the Prime Minister and Norman Tebbit.

Law,
David

HOME AFFAIRS
RIGHTS OF EVERY
P52



2 (week-end)

Prime Minister

Agree that the
idea of an amnesty
should not be pursued
further until the Keith
powers are in place?

26 November 1985

MR NORGROVE

TAX AMNESTY

DWS
26/11

Yes not

An amnesty is a major initiative that should rarely be used.
If it is to lure people out of the black economy, or
dissuade them from entering, then it needs to be coupled
with wide-ranging proposals for tax reform - and perhaps
jobs - to ensure this happens.

We agree with the Chancellor: it is best to wait until Keith
is in place to ensure we maximise the value of such an
initiative.

Peter Warr

PETER WARRY



CF
Will PW be commenting?
B/F 26/11. ALS
22/11
CCBG

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

PRIME MINISTER

TAX AMNESTY

You asked me to consider the possibility of a tax amnesty.

I attach a note prepared by officials. For understandable reasons, they take a cautious approach.

Nevertheless, I do not think we ought necessarily to reject the idea for all time.

First, it is clear that a good deal of enterprise and entrepreneurial activity is at present taking place outside the tax system. We need to harness and legitimise this activity, and one way to do so would be to encourage and assist these people to put themselves on a proper basis.

Second, however commendable the enterprise, we cannot, of course, condone blatant tax evasion. Our commitments to law and order, and to equal treatment within a fair society, require that firm measures are taken against those who, having had the opportunity to put their affairs in order, continue to exploit the rest of the community. It is all too easy to see tax evasion as cheating on the Government or the Revenue, rather than for what it is - cheating on the majority of ordinary people who pay the proper tax without fuss or complaint.



! Unfortunately, we are not at present in a position to mount the right sort of effective enforcement action. For that we need both the Keith legislation and increased resources. This suggests that it might be better to hold over the possibility of an amnesty until we have the relevant Keith powers by which time the Revenue should be emerging from their current work-state difficulties.

N.L.

N.L.

21 November 1985

TAX AMNESTY

1. The idea of a general amnesty has been looked at from time to time in the past, but there has always been a consensus against it.
2. The Keith Committee, which examined the suggestion, identified three conditions for success (the relevant extract is annexed) -
 - i. a specific period, during which the evader could come forward and make a full confession;
 - ii. an inducement - immunity from prosecution and penalties (and perhaps interest) - in return for paying the tax;
 - iii. the period of immunity to be followed by a more rigorous regime of enforcement, with a fair certainty that those no coming forward would eventually be caught and dealt with severely.
3. The third condition is not one which the Revenue are at present in a position to deliver. First, the Keith proposals, including an increase in the penalties for failing to declare income or gains, will not be implemented until late 1987 at the earliest. Second, far from there being staff resources available to direct an increased effort in this direction, the Revenue's current work-state difficulties are forcing the Department to accept a reduction in enforcement activity in several important areas.
4. An alternative possibility would be to mount a less ambitious amnesty, without the threat of an enforcement blitz at the end of the immunity period. This would not be directed at those who are susceptible only to threats of detection and severe punishment. Instead, the objective would be to offer a way out to those who, having perhaps established a viable black economy business, now wish to establish themselves on a legitimate basis but are discouraged from doing so, either because they fear prosecution or because they are unable to afford the cost in tax, penalties and interest of owning up to their past misdeeds.

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An amnesty with this limited objective raises two main questions -

- are there in fact a significant number of people in this position, ready to come forward and legitimise themselves?

- what would be the reaction of other sections of the community not benefiting from the amnesty? First, there would be some, at present outside the black economy, who would as a result be tempted to join it, encouraged by the thought that in due course there could be a further amnesty, on equally easy terms, and without in the meantime any increased danger of being caught. If this group were large enough, the net effect of the amnesty could be to add to, rather than reduce, the size of the problem. Second, and more importantly, the majority of ordinary honest citizens (as well as those who have previously been caught and paid the penalty) might well resent the special lenient treatment, particularly if there were any suggestion that the forgiveness might cover the past tax, in addition to the penalties and interest.

It was on the grounds of unfairness that the National Federation of the Self Employed in 1979 took the Revenue to the House of Lords over what they - mistakenly - perceived as an amnesty for the Fleet Street casuals. And it was on both grounds that the Keith Committee came down strongly against any amnesty at all.

There is already considerable easing of the consequences for someone who comes forward voluntarily to disclose undeclared income and then co-operates fully in the subsequent enquiries. In practice this weighs heavily in favour of the Revenue agreeing to a monetary settlement rather than prosecuting. And in many cases it would be taken into account in setting a lower level of penalty - even if the tax and interest had to be paid in full. When the leaflet setting out the Revenue's policy on mitigating penalties is published next year - as recommended by Keith - the extra publicity given to their practice may itself prompt some people to come forward.

● to sum up,

- a limited amnesty, lacking credible subsequent enforcement, could be counter-productive
- but a fully-effective amnesty on the basis envisaged by Keith is not feasible in present circumstances.

(a) *Granting an amnesty coupled with a publicity campaign*

27.2.2. Witnesses pointed to the experience of other revenue authorities and also to examples of amnesties in certain limited areas that had already been tried in the United Kingdom. The common features, each an essential element, were

- (i) the establishment of a limited time during which the tax evader might come forward and make a full confession;
- (ii) that the taxpayer would face no interest charge nor any other consequence in the form of civil proceedings for a penalty or criminal proceedings, while he would be charged to tax on any underdeclaration subject to de minimis limits; and
- (iii) that the amnesty period would be followed by a new more rigorous regime of enforcement carrying a significantly greater risk of detection and punishment, in order to make the inducement credible.

In the case of the Irish example of 1976 drawn to our attention, the third element involved a change of policy away from authorising the settlement of serious evasion out of court. United Kingdom experience has been in more limited areas. For example in 1967 there was a three month moratorium on prosecutions for false claims to personal allowances. In 1977 no interest and penalties were charged in respect of late 1975/76 and 1976/77 tax returns submitted within three months of the announcement. The Inland Revenue summed up their reactions to the suggestion of further amnesties as follows: "we have not gone in for any large scale amnesties and the experience of those who have is not encouraging". It seemed to us that if any one of the three elements in the amnesty equation were missing the whole exercise could well be counterproductive. In particular if the revenue authorities were not in a position to deliver a significantly improved detection rate at the third stage, then all that would have been achieved would be a reinforcement of the belief of tax evaders that all they need to do is sit tight. An amnesty is open to the further objection that it does not meet the representation that the Departments' enforcement efforts ought to be perceived to be even-handed across all groups of taxpayers. Of its very nature it contains an element of unfairness not only towards the honest citizen who has always met his tax obligations fully and on time, but also to those citizens who, having been dishonest, have recently been discovered and suffered the normal penalty. *We recommend* against the introduction of amnesties.

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