

Prime Minister A1

Alan White
Mr. Ingleton
Mr. Wilton
Mr. Lunt



(A)

The Chancellor is
unhappy about his
proposal (Plan A) to
redeploy & remove staff

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PRIME MINISTER

COUNTERING TAX FRAUD AND EVASION

continue to resist. The line to
go for the black economy is
when you can
reduce the level of
i.e. especially
on smaller
interest
12
26/6

to countering tax
evasion. Can he
go ahead?

At our meeting on 27 April to discuss the redeployment of Inland Revenue staff on countering tax evasion you expressed fears that the move might be seen as an attack on the small businessman and could even bring about an increase in recorded unemployment.

2. I recognise the importance of the points you make and I have looked at the matter again with great care.

3. First, a word about the context into which the proposed redeployment fits. The black economy is a real problem and is widely if not universally condemned. If we do not succeed in containing it there must be a risk of a decline in tax morality to the sort of levels one sees in parts of the Continent. There is no advantage, political or otherwise, in allowing this to happen; on the contrary, I should find it helpful to be able to point to something positive we are doing about the black economy.

4. On the detail of the proposal, the Inland Revenue staff concerned will be found from a - much larger - reduction in those at present engaged on the procedural side of Schedule D. So we shall see some reduction in the amount of tax paper work affecting businesses, in particular small businesses, and a more effective use of a smaller total number of staff.

5. The main task for those redeployed will be checking that PAYE tax is properly deducted and paid over from wages and salaries. This is an area where there has been a lot of criticism from the C & AG. One of his main points, which we shall aim to meet, is that more should be done to pick up casual workers who are paid in cash without proper tax deduction or

/records.



records. The principal target of the increased coverage will be the medium and large employer; a small employer's chance of a visit in any year will remain very low.

6. The second use for the Revenue staff - accounting for about one-fifth - will be to search out the self-employed "moonlighter". This is something I have been urged to do by small businesses; the Construction Industry's Joint Taxation Committee made the point very strongly in their pre-Budget representations, on behalf of bona fide smaller building firms across the country. The genuine small businessman sees the tax-evading moonlighter as unfair competition, and rightly so.

7. I see nothing in these proposals which could put up the unemployment figures. The casual who escapes PAYE will typically have a full-time job, and so will some of the self-employed moonlighters. As for the self-employed moonlighter who is running a full time business, I do not see him shutting it down because - like the rest of us - he has to pay tax. I would expect to find that some of those who are caught will be - illegally - drawing unemployment benefit; where this happens, recorded unemployment will come down.

8. As regards Customs & Excise, the redeployment of staff means that the Department can more effectively tackle anti-smuggling and fraud work - where, at present, a significant amount of work has to be left undone. The main areas are drug smuggling and evasion of restrictions on the imports of textiles (the latter at the request of Keith Joseph and John Nott, when at Trade). Here again, in no way can the actions be represented as an attack on small businessmen.

9. There is I should add nothing in the argument sometimes seen in the newspapers that collecting evaded tax reduces demand and thus prevents job-creation: if the Revenue could collect even some of the (perhaps) £4 billion presently evaded I could use the money to reduce the PSBR, to cut taxes, or to finance productive investment



in small businesses.

10. The problem about the black economy is not whether the tax should be collected, but whether it can be, in a cost effective way. I am satisfied that my present proposals will go some way towards doing that. They entail a relatively small - but more efficient - regrouping of resources within two large organisations. The effect will build up slowly over the next three years and the exercise does not represent any going back on our continued efforts to meet the 1984 manpower target.

11. Of course, I will consider carefully how best to present the moves, in order to avoid any misunderstanding about their effects or motives behind them; a pretty low-key approach will clearly be desirable. The news can probably emerge most effectively in course of evidence to the PAC, which maintains a powerful interest in this subject.

12. I am copying this minute to Christopher Soames, Francis Pym, Patrick Jenkin and Jim Prior.

A handwritten signature in dark ink, appearing to be 'G.H.' with a flourish.

(G.H.)

26 June 1981

26 JUN 1987

