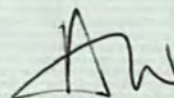


cc Mr. Lankester
Mr. Wolfson
Mr. Hoskyns
Mr. Duguid
Press Office

B

PRIME MINISTER

1. I think the Chancellor is entirely right in putting as a first priority the integrity of the tax system. As one can see in Italy, tax evasion is infectious and spreads very rapidly. The law-abiding taxpayer is both outraged and tempted by the example of the tax evader.
2. The Chancellor's proposal to concentrate largely on the PAYE deductibility for large and medium firms is a good one. Politically it can be shown that we are not hounding the small minnows. We are out for the bigger fish.
3. Para 5 of the Chancellor's memorandum of 26 June suggests that the main target will be the casual worker, paid in cash, who is employed primarily by a medium and large employer; the chances are the small employer being visited in any year will remain very low. The second attack will be on the "self-employed moonlighter". But of course the self-employed moonlighter is rather like a very small firm and it seems there is some inconsistency between the inadequacy of the coverage of small firms in para 5 and the earmarking of the self-employed moonlighter in para 6.
4. I think the Chancellor is being rather hopeful in para 7 when he suggests that the proposals could not put up the unemployment figures. The Chancellor says he cannot see the self-employed moonlighter shutting his business down because he has to pay tax. But if social security and unemployment benefit are sufficiently high relative to his untaxed earnings from moonlighting, he may well be tempted, when confronted with tax deductions, to see the state of being unemployed and on benefit preferable to that of working. To argue the contrary, as the Chancellor does, implies that 30% or so difference in marginal earnings will not affect anyone's behaviour. I do not think that can be entirely true.
5. One of the omissions from the Chancellor's list is the problem of VAT evasion. In my experience this is very common among the casual service trades.



ALAN WALTERS

30 June 1981

MR. LANKESTER *RL*

COUNTERING TAX FRAUD AND EVASION

Re the Chancellor's memorandum of 26 June. The main thrust of the programme is to check that PAYE is being paid. Para 5 suggests that the main target will be the casual worker, paid in cash, who is employed primarily by a medium and large employer; the chances are the small employer being visited in any year will remain very low. The second attack will be on the "self-employed moonlighter". But of course the self-employed moonlighter is rather like a very small firm and it seems there is some inconsistency between the inadequacy of the coverage of small firms in para 5 and the earmarking of the self-employed moonlighter in para 6.

I think the Chancellor is being rather hopeful in para 7 when he suggests that the proposals could not put up the unemployment figures. The Chancellor says he cannot see the self-employed moonlighter shutting his business down because he has to pay tax. But if social security and unemployment benefit are sufficiently high relative to his untaxed earnings from moonlighting, he may well be tempted, when confronted with tax deductions, to see the state of being unemployed and on benefit preferable to that of working. To argue the contrary, as the Chancellor does, implies that 30% or so difference in marginal earnings will not affect anyone's behaviour. I do not think that can be entirely true.

One of the omissions from the Chancellor's list is the problem of VAT evasion. In my experience this is very common among the casual service trades.

AW

29 June 1981

ALAN WALTERS