Tax Representation

30 September 2008

TAXREP 75/08

SIMPLIFYING THE VAT PARTIAL EXEMPTION AND CAPITAL GOODS SCHEME RULES

A submission made on 30 September 2008 to HMRC by the Tax Faculty of the Institute of Chartered Accountants in England and Wales concerning the proposal to amend the rules on VAT invoicing.

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SIMPLIFYING THE VAT PARTIAL EXEMPTION AND CAPITAL GOODS SCHEME RULES

INTRODUCTION

1. We are pleased to respond to HMRC's consultation document dated June 2008 on simplifying the VAT partial exemption and capital goods scheme rules, which can be found at http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal?_nfpb=true&_pageLabel=pageLibrary_ConsultationDocuments&propertyType=document&columns=1&id=HMCE_PROD1_028677

2. Details about the Tax Faculty and the Institute of Chartered Accountants in England and Wales are set out in Annex A and our Ten Tenets for a Better Tax System which we use as a benchmark is in Annex B.

KEY POINT SUMMARY

3. We support the ideas of an in-year provisional recovery rate, early annual adjustment and use-based option for start-up businesses and recommend that these all be made available on an optional basis.

4. We are in favour of the introduction of a choice of standard partial exemption methods. At least one of these should allow for the inclusion of certain overseas supplies.

5. We agree that the calculation to determine whether or not a business is below the de minimis limit should be simplified. However, we are not convinced that the method of calculation shown in the consultation document achieves this objective.

6. A combined method for the calculation of recoverable input tax, taking into account supplies for business/non-business and partial exemption purposes, should be permitted.

7. In the interests of simplification, we recommend that compulsory use of the Capital Goods Scheme be limited to properties with a value of over £1,000,000 only. Computer equipment should be removed from the scheme altogether. An option to treat assets under the Capital Goods Scheme should be made available for relevant assets costing between £10,000 and £1,000,000.

GENERAL COMMENTS

8. It is proposed to work to develop changes over a three year period focusing on:

   - the standard method in 2008/09,
   - the de minimis and non-business interaction in 2009/10 and
   - the capital goods scheme in 2010/11,

9. We believe that it is difficult to cover adequately all of these concepts in this single Consultation, as there is too much to be considered properly at one time. The Consultation should be staggered.

10. In general, the proposals are to be welcomed as a positive step forward, although some of the observations are misleading, for example, the suggestion that the inclusion of certain overseas supplies in the standard method will affect smaller sized businesses (mainly in the financial services sector). This issue will, and should be, potentially of wider application.

11. The comments ignore the fact that almost every business makes exempt supplies and is, by definition, partly exempt. The ability to treat certain exempt supplies as incidental for the purposes of a residual input tax calculation, but not direct attribution, is important in this context as much as the de minimis rules.

12. We do not think that the de minimis rules and the provisions for incidental finance and property transactions should be looked at in isolation as both are really, in Directive terms, appropriate only for the residual input tax calculation.

SPECIFIC COMMENTS

Chapter 3 - Simplifying the partial exemption standard method

3.1 - In-year provisional recovery rate

13. This idea is to allow businesses to use the prior year recovery rate instead of preparing a standard method calculation each time a VAT return is completed. In as much as the normal quarterly calculation is provisional, it is misleading to refer to this suggestion in those terms. A better term would be "estimated".

Answers to Questions

14. **3.1.a Benefits:** There is much to be said for this facility, so long as it is optional on the part of the taxpayer and can be changed year by year and also part way through a tax year if, say, current business trends are downwards, resulting in significant overpayments. The benefit will come largely from the avoidance of the need to do detailed calculations each period, which could potentially save considerable management and administrative time.

15. **3.1.b Downsides:** There are several possible downsides.

- Record keeping may suffer. One of the, often understated, advantages of VAT is that it requires a degree of discipline in regularly maintaining accounting records. Leaving things until the year end could mean overall records are less accurate or take a little longer to compile. Whilst this is an issue for the business itself, it is something that could usefully be pointed out.
- Doing just a single calculation at the year end may, for some businesses, require outside help, although this might be mitigated if combined with the annual audit or preparation of the accounts.
- If the provisional calculation is based on the results of the previous tax year, this could, if business trends have changed or turnover increased, lead to insufficient tax having been paid on account. Again, this is an issue for the business itself, but something that could usefully be pointed out. This could also be dealt with by providing an option to businesses to change mid way through a tax year.

- It would need to be made clear that this should not affect the treatment of directly attributable input tax or VAT that is never recovered - eg tax on entertaining.

16. **3.1.c Conditions:** The provisional recovery should normally be optional for the taxpayer, not compulsory.

    - The exception to this might be where there is evidence that normal calculations would be likely to cause compliance difficulties, in which event the provisional calculation should be viewed as a special method.
    - Businesses should be able to change year by year and, in certain circumstances, for example where there is a change in business trends, part way through a tax year. HMRC could keep track of this by having taxpayers tick an appropriate box on the VAT return.

17. **3.1.d Conclusion:** On the whole, this is a good idea and something to be welcomed.

3.2 - Early annual adjustment

18. This idea is to save the need for a separate annual adjustment calculation by including it within the final standard method calculation for the year. On the whole it is a sensible move.

Answers to Questions

19. **3.2.a Benefits:** The present accounting/adjustment requirement is not even the same as that for the Capital Goods scheme adjustment and can be misunderstood and/or overlooked. A change would potentially make it easier for businesses to comply.

20. **3.2.b Downsides:** We see few downsides, so long as businesses were given the option of continuing to adjust as at present. When they chose to adjust could be disclosed to HMRC by having the business tick an appropriate box on the return.

21. **3.2.c Conditions:** As with 3.1 above, this should be optional, not compulsory. HMRC could, again, keep track of this by having taxpayers tick an appropriate box on the VAT return. If the business accidentally forgot to make the annual adjustment, this should be corrected in the next following return unless the amount is in excess of the figures for Voluntary Disclosure.

22. **3.2.d Conclusion:** On balance, this must be a welcome simplification.

3.3 - Use-based option for start-up businesses

23. This allows start-up businesses the option to recover input tax in line with use as an alternative to using the standard method. It is generally a good idea so long as it is a temporary arrangement only and is not used by HMRC as an exercise to force businesses to adopt a use based method on a long term basis.

Answers to Questions

24. **3.3.a Benefits:** Potentially, this could help businesses achieve a fairer result. It would also help avoid LIPA-type situations.

25. **3.3.b Downsides:** The main downside would be if this were used by HMRC to force businesses to adopt a use-based method on a long term basis. The ability to change would be important.

26. **3.3.c Conditions:** It is hard to say for how long a start-up business should be able to apply 'use' before reverting to the standard method, but we believe that this option should be available for at least the first two years. HMRC might deal with the assurance aspects by having appropriate boxes for businesses to complete or tick on the VAT return. More to the point, we believe that the best way for HMRC to ensure that businesses account for the right amount of tax is to re-introduce control/educational visits, with a visit scheduled for the first 18 months to two years.

27. **3.3.d Conclusion:** On balance, we support this simplification idea.

3.4 - Including certain overseas supplies in the standard method

28. The suggestion that this idea is of relevance to smaller businesses that operate in the financial services sector and make overseas supplies is misleading, because it affects many other businesses, both in terms of sector and size. It would be relevant, for example, for businesses operating wholly in the UK who make supplies or deliveries of goods in bond (s18, VATA 1994) or abroad. Many of these businesses are very large. It would equally be relevant for brokerage businesses operating in the UK and acting in the UK on behalf of suppliers of goods in bond or abroad or of transport and other services, which are themselves deemed under the place of supply rules to be abroad.

29. It is also misleading to infer that it requires familiarity with VAT legislation to any greater extent than at present. The whole issue concerns the place of supply rules, which are, in the main, a wholly artificial concept often divorced from the idea of where supplies are actually made. Under the present method, businesses must already be familiar with this legislation. In point of fact, they are often not familiar with it at all.

30. The present method, whereby businesses making overseas supplies that carry the right of recovery (known as foreign and specified supplies) must carry out an additional calculation to determine the input tax recoverable against these supplies is not in compliance with the Directive.

31. It is untrue, as a general rule, that foreign and specified supplies are excluded from the standard method because they can potentially distort a values based calculation. The example cited (the cost of making supplies of financial instruments such as shares not always corresponding to their value) is inappropriate and misleading, because this difference in underlying costs can equally arise between, say, principals' sales and brokerage for transactions where the place of supply is wholly within the UK. It is also distortive and unfair when, as is often the case, within the same business, UK and overseas supplies are made by the same people in the same business area.

32. These supplies were excluded purely and simply to counter a perceived avoidance device involving share-issue costs, which has now become irrelevant following *Kretztechnik* (Case C-465/03).

33. As regards supplies made from an overseas branch of a UK company, this is potentially a different issue. There would be a strong argument for excluding these from a standard method, which should concentrate on the place of actual supply (rather like the permanent establishment rules for direct tax).

34. To reduce this risk of distortion, at present a business must deal with its foreign and specified supplies in a standalone calculation (known as a Regulation 103 calculation) or, alternatively, seek approval for a special method tailored to give a fair recovery of input tax.

35. The suggestion of excluding supplies most likely to distort the calculation irrespective of whether they are supplied in the UK or outside the UK and recovering related input tax on the basis of 'use' appears acceptable. However:
    - Whilst excluding supplies made from overseas establishments makes sense and is in line with the familiar treatment for direct tax,
    - Excluding supplies of financial instruments such as shares and bonds is not justified. Mostly, these are supplies that should be considered in the context of the rules for *incidental* financial and property transactions, which is where most will arise. Only if these supplies are not *incidental* should there be any question of separate treatment.

Answers to Questions

36. **3.4.a Benefits:** The main benefit would be a simpler and more easily understood calculation. It would also be less prone to distortion and more in line with the Directive.

37. **3.4.b Downsides:** There should not be any downside, but it would only make the standard method more complex if there were exclusions, especially if only some foreign and specified supplies could be included.

38. **3.4.c Conditions:** The only supplies that should be excluded from the standard method should be supplies actually made at overseas establishments of the business.

39. **3.4.d Conclusion:** On balance, we support this simplification idea, but maintain it is misleading to imply that it should be aimed at small financial services businesses. Small financial services businesses can, of course, always agree a special method and would probably be expected to do so anyway if they made supplies where the values, as between principals' sales and brokerage for example, are distortive.

3.5 - Alternative standard methods

40. The idea of providing the option of alternative standard methods is generally a good one and it would, indeed, be helpful if a business could choose between two or three alternative standard methods, including sector-specific guidance (or frameworks). Care would need to be taken that these proposals are not themselves inherently unfair, as was the case some years ago with a suggested standard method calculation in one of the earlier versions of Notice 706.

41. It would seem appropriate to align alternative methods with the Directive, Article173(2) i.e. –
    - Current turnover method applied to whole business
    - Turnover based method applied on a sector by sector basis (currently only possible as a standard method)
    - Use-based method on the lines of regulation 103(1) without any need for approval as a special method.

42. Alternatively, we understand that France does not require a special method to be agreed, the only requirement being that any apportionment of residual input tax needs to be fair and reasonable. Such an approach in the UK would eliminate the need for any standard method to be specified.

Answers to Questions

43. **3.5.a Benefits:** The obvious benefit would be in allowing a business to opt out of a method it perceived as generally unfair.

44. **3.5.b Downsides:** Whether businesses would incur additional costs in applying or comparing the various options available would depend on their individual circumstances, but this should be an acceptable trade-off if the methods were easy to understand and simple to use. A use-based method has a potential downside for taxable persons if HMRC does not agree with the basis of measurement of use. However, in such circumstances, HMRC would need to issue an assessment, instead of refusing permission for a special method, resulting in the taxable person having a decision against which an appeal could be lodged.

45. **3.5.c Conditions:** Businesses should be given the option to change from one standard method to another. HMRC could control/monitor this by having businesses tick an appropriate box on the return to show which method is in use.

46. **3.5.d Conclusion:** On balance, we support this simplification idea.

Chapter 4 - Simplifying the partial exemption de minimis rules

47. The idea of simplifying the de minimis rules is a generally good idea. However, the way they have been applied, and to some extent the emphasis of these proposals, seems wrong in principle.

48. It is clear from the Directive Art 173(e) that the de-minimis rules are meant only to apply to the residual/proportional calculation. They are not intended for any VAT that is directly attributable to taxable or exempt supplies. We suggest that this may be part of the reason why there seems to be a problem and potential abuse at present.

49. The de minimis rules should not be looked at in isolation from the rules for incidental financial and property supplies. Both are meant only to affect the residual/proportional calculation. This is one of the reasons why the suggestion for retaining Regulation 103 treatment for this type of supply appears incorrect and potentially distortive.

4.1 - Annual test

50. This idea of applying the de minimis test on an annual basis rather than for each VAT return period is sensible and would be needed if businesses were able to use a provisional/estimated recovery rate for residual input tax as per one of the other proposals.

Answers to Questions

51. **4.1.a Benefits:** The main benefit would be from reducing the number of calculations from five to one a year – a saving in administration costs.

52. **4.1.b Downsides:** The downsides would be that businesses within the de minimis rules overall might have to wait before they obtained an adjustment for overpaid tax. As this is a de-minimis measure, however, this may not be a significant issue, especially if our points at the beginning of this section are addressed.

53. **4.1.c Conditions:** This test has to apply if provisional/estimated recovery rates are used. Allowing it to be optional would otherwise have winners and losers and is difficult to assess.

54. **4.1.d Conclusion:** On balance, we support this simplification idea.

4.2 - Simplifying the de minimis test

55. The idea of simplifying the de minimis test so that it is no longer necessary for a business to carry out a full partial exemption calculation is a good one. However, for the reasons given earlier, we think the present emphasis and that proposed may be misplaced.

56. One test that has been suggested is that a business could treat itself as de minimis if both of the following conditions were satisfied:

- Total input tax less input tax on goods sold on in the same state is no more than £x; and,
- The value of exempt supplies is no more than half the value of all supplies.

57. Input tax on goods sold on in the same state is normally fully recoverable (supplies of goods are normally taxable) and so excluded from the calculation. The second condition is an approximation of the 50% rule in the current test and is to deter exempt businesses from registering to take advantage of the de minimis provisions where they would otherwise have no reason to do so.

58. We do not believe that the calculation of "the total input tax less input tax on goods sold on in the same state is no more than £x" will be much easier than the existing method of calculating the amount of input tax that can be reclaimed for a partially exempt business.

59. The proposed calculation would discriminate against businesses such as farmers, which have a substantial amount of zero rated outputs, because they are currently eligible to reclaim all of the input tax attributable to those outputs. However, under the new proposal the input tax attributable to the zero rated supplies would be treated in the same way as input tax attributable to exempt supplies, because the input tax on zero rated goods sold on in the same state would be zero.

60. Furthermore, for a business making standard rated supplies it is quite possible that work would be done on goods purchased before they were sold on and so the goods would not be sold on "in the same state" and, therefore, the input tax attributable to the standard rated supplies would be treated in the same way as input tax attributable to exempt supplies. We do not see how this can be regarded as fair.

Answers to Questions

61. **4.2.a Benefits:** A simpler method would be a good idea for some, if it avoided the need to address whether, and how much, VAT partly related to exempt supplies.

62. **4.2.b Downsides:** It is possible that the formula suggested might be misunderstood or difficult to calculate in some businesses, especially the reference to same-state goods and could be open to abuse. It would depend, anyway, on the monetary limit set and could discriminate against businesses making substantial sales of zero rated goods.

63. **4.2.c Conditions:** We suggest that the approach to de minimis tests be reconsidered in the light of our earlier comments.

64. **4.2.d Conclusion:** We support the idea of simplification if a suitable method can be developed that is fair to all.

4.3 - Raising the de minimis limit

65. The idea is to raise the limit to increase the number of businesses that would qualify as de minimis and so, in theory, would be spared the need to prepare partial exemption calculations. Whether this would be needed if the approach to de minimis were re-appraised in the light of our earlier comments is something that would be worth assessing. The effect on the cost to the Exchequer needs to be reconsidered in this light. It must make sense to remove more businesses from the need to do partial exemption calculations, but it is questionable whether this is the way.

Answers to Questions

66. **4.3.a Benefits:** Without re-assessing the approach as mentioned earlier, we see little obvious benefit. There would still be confusion and a need to calculate, but the exercise would be easier if certain input tax was taken out of the equation in the first place (as the Directive intends).

67. **4.3.b Downsides:** Raising limits, rather than dealing with the underlying issues, would not necessarily lead to equality.

68. **4.4.c Conditions:** We suggest that the limits remain unchanged, as we see no reason to increase them, but to decrease them would be interpreted by many as an unacceptable revenue raising measure.

69. **4.4.d Conclusion** In principle, we are not in favour of this proposal for the reasons given.

Chapter 5 - Simplifying the interaction between partial exemption and business/non-business

5.1 - Combined PE BNB method

70. If you look on this whole exercise as one for determining the correct amount of recoverable input tax, as opposed to just partial exemption, this should put the matter into perspective. The two aspects are generally inseparable as a concept, so that it would seem a good idea to combine them, as a two-stage approach to be carried out at the same time. Giving people the option of applying for a combined PE BNB method is not necessarily the issue. What is needed is guidance and, if necessary, help in agreeing the first stage of calculating what is not input tax.

71. Many businesses affected by both calculations are probably unaware of the distinction between exempt and non-business activities. The suggestion that it would be simpler if a business had the option of seeking approval of a single approach would seem sensible, as this would reduce the number of calculations it had to make and remove the need for many affected businesses to distinguish between exempt and non-business activities.

Answers to Questions

72. **5.1.a Benefits:** The main benefit would be of greater certainty once a method had been agreed. However, this would need more specialist HMRC staff being available. Requiring businesses to negotiate or discuss this via the National Advice Centre would be counter-productive.

73. **5.1.b Downsides:** If an agreement is freely discussed and negotiated between the business and HMRC, there should be no downsides, so long as sufficient specialist staff were available and who were prepared to look at things in a constructive and helpful way, rather than wanting to seek the maximum amount of revenue at all costs.

74. **5.1.c Conditions:** It might be worth considering a special box on the VAT return to make people aware of the business/non-business distinction, coupled with adequate guidance, which does not attempt to unduly/unfairly prevent something qualifying as input tax.

75. **5.1.d Conclusion:** On balance, we support this simplification idea.

Chapter 6 - Simplifying the Capital Goods Scheme

76. Simplification is a good idea, but in line with our general comments above, we think this is probably something best left to a separate exercise. We are consequently limiting our comments at this stage.

77. As a general simplification, we believe it would be helpful if business were not required to make Capital Goods Scheme adjustments for changes of less than 10%.

6.1 - Pooling capital items

78. Removing the need to perform separate calculations for each asset is certainly worth considering, but probably only on the basis of allowing businesses the option to do so or not.

Answers to Questions

79. **6.1.a Benefits:** In many cases, we suspect that allowing businesses to pool capital items would reduce costs and administration, but businesses should be allowed the option.

80. **6.1.b Downsides:** The obvious way to mitigate any downsides (possibly increased VAT costs where assets have different economic lives) might be to allow an option.

81. **6.1.c Conditions:** Pooling should be optional and affected business should be permitted to select which items they wish to include in any particular pool. In order to limit pools to similar capital items, it may be necessary or appropriate for a business to have several pools for each capital goods scheme adjustment year.

82. **6.1.d Conclusion:** On balance, we support this simplification idea if each business is given the option as to whether or not they wish to adopt it.

6.2 - Increasing the threshold for capital items

83. The existing thresholds have not increased since the scheme was introduced on 1 April 1990. It would therefore seem appropriate for the thresholds to be significantly increased, especially in relation to property, where price inflation has been particularly high.

84. However, there could be significant disadvantages for some small businesses in compulsorily raising the threshold. An example of this is the *Chard Bowling Club* case where initial high exempt activity was followed by rather more taxable activity. If recovery is determined on an initial low recovery, the taxable person can be disadvantaged.

85. Allied to this problem is the fact that the *Lennartz* rules are going to change. It may often be difficult to determine upfront whether certain assets will be used for business or non-business purposes. Excluding taxpayers from adjusting their input tax recovery in such circumstances could be significantly unfair.

86. In view of the comments at paragraphs 83 to 85 above, we recommend that an option be made available to businesses as to whether or not they wish a particular item to be subject to adjustments under the Capital Goods Scheme. This could work as follows:

• Capital item below £10,000	No adjustment possible
• Capital item between £10,000 and £1m	Taxpayer option to include in CGS
• Capital items above £1m	Always included in the CGS

Answers to Questions

87. **6.2.a Benefits:** Anything that would reduce the numbers of businesses applying these rules must be welcome, as it could greatly reduce the time taken for compliance and the risk of errors.

88. **6.2.b Downsides:** It is possible that an increase might lead to greater inequity between those businesses with assets that exceed the higher limit than those that do not. However, one possibility to mitigate such effects would be to give businesses the option of applying the scheme to lower-value assets.

89. **6.2.c Conditions:** We think that a threshold of £1,000,000 would be appropriate for properties and that computer equipment should be removed from the scheme altogether. An option should be made available to businesses to treat assets costing between £10,000 and £1,000,000 under the terms of the Capital Goods Scheme.

90. **6.2.d Conclusion:** Subject to the above, we generally support this simplification idea.

6.3 - Updating the definition of IT expenditure

91. The value of computer equipment has fallen dramatically in recent years, making it unusual for it to fall within the Capital Goods Scheme, even at the existing £50,000 threshold. Also, the economic life of such equipment is often less than five years. We believe that the combination of these facts, and the desire to simplify where possible and reasonable to do so, leads to the conclusion that computer equipment should be removed from the Capital Goods Scheme altogether. We recommend that this should be done.

92. We oppose the extension of the Capital Goods Scheme to computer software, due to complexities such as determining when a project begins and ends and identifying which software and associated costs that may need to be included. In common with computer hardware, computer software often has a useful life of only a few years.

6.4 - Simplifying the start date definition

93. In principle, this seems to be a worthwhile simplification, which we support.

6.5 - Dealing with part disposals

94. In principle, this seems to be a worthwhile simplification, which we support.

6.6 - Other definitions

95. Removing the 10% additional floor area condition would increase the number of alterations caught by the Capital Goods Scheme. Consequently, we do not consider that this is a simplification and so do not support it.

96. Removing the condition around self-supply charges arising before 1 March 1997 seems sensible. We therefore support this simplification.

97. We believe that the removal of the condition that refurbishment expenditure needs to be in relation to items that are affixed to the building for Capital Goods Scheme purposes would significantly increase the number of refurbishments caught by the scheme. For example, it is common for office furniture to be replaced as part of a

refurbishment. Expenditure on such items is likely to be capitalised for accounting purposes, thereby significantly increasing the costs to be included in the valuation. Consequently, we do not see this as a simplification and so do not support it.

98. Although not necessarily a simplification, we can see some sense in tying in the Capital Goods Scheme adjustment period with the period of the lease where this has between five and ten years to run.

NG 30.09.08

ANNEX 1

WHO WE ARE

1. The Institute of Chartered Accountants in England & Wales is a professional body representing some 128,000 members. The Institute operates under a Royal Charter with an obligation to act in the public interest. It is regulated by the Department of Trade and Industry through the Accountancy Foundation. Its primary objectives are to educate and train Chartered Accountants, to maintain high standards for professional conduct among members, to provide services to its members and students, and to advance the theory and practice of accountancy (which includes taxation).

2. The Tax Faculty is the centre for excellence and an authoritative voice for the Institute on taxation matters. It is responsible for tax representations on behalf of the Institute as a whole and it also provides services to more than 11,000 Faculty members who pay an additional subscription.

3. Further information is available on the ICAEW website, www.icaew.co.uk.

ANNEX 2

THE TAX FACULTY'S TEN TENETS FOR A BETTER TAX SYSTEM

The tax system should be:

1. **Statutory:** tax legislation should be enacted by statute and subject to proper democratic scrutiny by Parliament.

2. **Certain:** in virtually all circumstances the application of the tax rules should be certain. It should not normally be necessary for anyone to resort to the courts in order to resolve how the rules operate in relation to his or her tax affairs.

3. **Simple:** the tax rules should aim to be simple, understandable and clear in their objectives.

4. **Easy to collect and to calculate:** a person's tax liability should be easy to calculate and straightforward and cheap to collect.

5. **Properly targeted:** when anti-avoidance legislation is passed, due regard should be had to maintaining the simplicity and certainty of the tax system by targeting it to close specific loopholes.

6. **Constant:** Changes to the underlying rules should be kept to a minimum. There should be a justifiable economic and/or social basis for any change to the tax rules and this justification should be made public and the underlying policy made clear.

7. **Subject to proper consultation:** other than in exceptional circumstances, the Government should allow adequate time for both the drafting of tax legislation and full consultation on it.

8. **Regularly reviewed:** the tax rules should be subject to a regular public review to determine their continuing relevance and whether their original justification has been realised. If a tax rule is no longer relevant, then it should be repealed.

9. **Fair and reasonable:** the revenue authorities have a duty to exercise their powers reasonably. There should be a right of appeal to an independent tribunal against all their decisions.

10. **Competitive:** tax rules and rates should be framed so as to encourage investment, capital and trade in and with the UK.

These are explained in more detail in our discussion document published in October 1999 as **TAXGUIDE 4/99**