

PUBLIC POLICY AND TAXATION

**Professional 2
June 2004**

MARKING SCHEME



(Copyright)

Question 1

(a) (i) Federal or Unitary

In unitary states, power is concentrated in one supreme body. 1

In federal states, supreme power is distributed between different levels of government and the courts usually have to be used to resolve conflict between these bodies. 1

Codified or Uncodified

Countries with codified constitutions encapsulate the main body of their constitutional law in a single document. 1

Countries with uncodified constitutions may have many elements of their constitutional law recorded in writing, but this constitutional law is not codified into a single document. 1

Flexible and Inflexible

Codified constitutions are usually more inflexible than uncodified ones. 1

This is because the procedure for amending codified constitutions normally involves special procedures whereas uncodified constitutions can normally be amended by the same process as ordinary law. 1

NB: candidates who use the terms "written/unwritten" rather than "codified/uncodified" should be given credit provided they explain these terms appropriately. (6)

(ii) The British Constitution**Unitary**

Despite devolution to Scotland and Wales (and, from time to time, Northern Ireland), parliament is the supreme governing body and there is no federal structure in the UK. 1

Flexible

The UK constitution is uncodified and is therefore flexible. 1

Partly written but uncodified

Much of the UK constitution is written (eg statutory legislation) but much is a matter of custom and convention and there is no single codified constitution document. 1

(3)

(b) Parliament is the source of ultimate legal authority (the "Queen in Parliament"). It is the supreme law-making body. It can make or repeal law on any subject whatsoever and it can do so retrospectively. Statute law overrides all other sources of law and the sovereignty of parliament is recognised by the courts. 1

In external relations with other countries, parliamentary sovereignty refers to a parliament's ability to function independently from external influence (eg UK parliament's ability to function independently from the EU Commission and Council of Ministers). 1

Devolution of government in the UK to the Scottish, Welsh and (intermittent) Northern Ireland Assemblies has not eroded UK parliamentary sovereignty.

- Powers that are devolved are effectively retained by parliament and can (like Devolution itself) be reversed/called back at any time. 1
(3)
- (c) European Communities Act (1972) gave the force of law within the UK to obligations arising under the EU treaties. EU law now has general and binding authority in the UK. 1
- EU law takes precedence over all inconsistent UK law. It precludes the UK parliament from legislating on matters within EU competence, where the EU has formulated rules to “occupy the field”. 1
- EU membership has not broken the principle that parliament cannot bind its future action (ie Acts of Parliament are not binding on future parliaments; they can be repealed and hence the European Communities Act is overturnable). 1
- If the UK refuses to pass amending legislation where its law is inconsistent with EU law, Test Cases imply that the European Court of Justice cannot hold national legislation as being void. 1
- (Credit should be given to any candidates who mention that Parliamentary sovereignty, vis-à-vis the EU can only be fully restored by the UK’s withdrawal from the EU by repealing the 1972 European Communities Act. But the maximum mark for (c) is 4).* (4)
- (d) (i) **House of Commons Functions**
- Representation:** represents political parties, interest groups and the constituencies/electorate. 1
- Legislation:** HoC no longer makes policy in either the sense of initiation or strongly influencing (this now done by government). But HoC must approve legislation (it frequently amends and occasionally defeats legislation). 1
- Scrutiny and Influence of the Executive:** HoC acts as an arena for constitutional opposition. It is in parliament that the government must explain and defend its actions (in practice, recent opposition parties have been too small to do anything significant). 1
- Forum for National Debate:** HoC acts as a focus for national debate on many different kinds of occasion (eg PM Question Time, Queen’s Speech, normal legislative business). 1
- Recruitment of a Government:** Parliament no longer selects Ministers, but it is a “school of statesmanship”. Ministers are invariably drawn from Parliament, especially the HoC. 1
- 1 mark per role. (Some candidates may mention the function of Legitimation (authorising the actions of government) in addition to/instead of those above – this is quite acceptable, but overall maximum for 1(d) (i) is 5 marks).* (5)

(d) (ii) Main constraints on the House of Commons are:

Obligations assumed under treaties (eg as a member of NATO) or by the terms of foreign loans (eg Britain's past financial assistance from the IMF). 1

Although the Commons occasionally passes genuinely unpopular legislation (eg suspension of capital punishment), it must generally behave in accordance with public opinion. 1

The EU's, House of Lords' and Civil Service's ability to frustrate the intent of legislation. 2
(4)

(25)

Question 2

- (a) An exchange rate is the price of one currency in terms of another (eg US\$ 1.80 = £1.00). 1
- Like any other price, the level of an exchange rate is set by the forces of supply and demand. 1
- The following factors are amongst those that influence supply and demand for a currency.
- Trade flows.**
- Exports – to buy exports, overseas buyers have to buy the currency of the exporter's nation, increasing the demand for that currency. 1
- Imports – to buy imports, importers will have to sell their national currency in order to buy the relevant overseas currency, thus increasing the supply of their own currency. 1
- Capital Flows**
- Inward-investment into a country will mean that the investors will have to buy that country's currency to do so, thus raising demand for that currency. 1
- Outward-investment from a country will mean that investors have to sell their own currency in exchange for relevant overseas currencies, thus increasing supply of their own currency. 1
- Some candidates may mention other factors that affect the level of exchange rates (eg official intervention in the forex markets, changes in relative interest rates, political change/upheaval, economic and financial news). Such candidates should be given credit for such points, subject to an overall maximum of 6 marks for 2 (a).* (6)
- (b) Economic tests for UK membership of EMU (the single currency) are as follows.
- It will have to promote economic growth and jobs. 1
- It must demonstrate its capacity to cope with economic shocks. 1
- The business cycles and economic structures between Britain and Europe must be compatible. 1
- It must create better conditions for companies to invest in the UK. 1
- Its effect on the UK services industry (especially financial services) will have to be assessed. 1
- (5)
- (c) **Arguments for.**
- Eliminate uncertainty caused by exchange rate fluctuations/devaluations (although these will continue between the euro and other countries). 1
- Increase trade within the Eurozone by reducing costs associated with different currencies (eg/ currency conversion, hedging). 1
- Make price differences between international competitors more transparent, acting as a stimulus to price competition. 1

Mean that the European Central Bank becomes responsible for monetary policy and interest rates, leading to greater monetary stability.	1
Arguments against.	
The EU is not an optimal currency zone (ie significant economic differences between member countries mean it is not suitable for a single currency).	1
The imposition of a single currency could lead to significant widening of economic differentials, regional unemployment and migration.	1
The single currency severely reduces Members' economic policy discretion; fiscal policy is the only remaining macro-economic policy tool.	1
The perception that membership of the euro is a significant step along the path to greater European integration/federalism which many see as undesirable.	1
<i>Arguments must be generic and not specific to the UK. Other arguments for/against membership may be cited. If plausible, candidates should be given credit for such points, subject to an overall maximum of 8 marks for 2 (c).</i>	(8)
(d) Fiscal policy involves management of the UK economy through the manipulation of taxation and public spending.	1
Since the early-1980s, UK governments have focused their attention on supply-side economic policies and tools. This has effectively relegated/limited the role of the revenue component of fiscal policy to securing a balanced current budget over the medium term. However, the capital budget is not required to balance. This facilitates expansion in capital expenditure from time to time, such as the announcements early this century for education and health.	2
Monetary policy involves the management of liquidity, economic activity and inflation, primarily through the adjustment of interest rates.	1
In the UK, it is the Bank of England that sets interest rates through the interest rate maneuvering of its Monetary Policy Committee. MPC interest rate decisions are shaped by the Government which sets inflation targets (currently on HCPI of 2%) and holds the MPC accountable for achieving these targets.	2
	(6)
	(25)

Question 3

- (a) The five models that seek to explain alternative views of the relationship between civil servants and their Ministers in the decision-making process are the:

Traditional Public Administration/Liberal Democratic Model

Liberal Bureaucratic/New Administration Model

“Whitehall Village” Model

Power-Bloc Model

Bureaucratic Over-Supply Model

½ mark for each model identified

Traditional Public Administration/Liberal Democratic Model

Ministers are responsible for policy formulation and to Parliament for the conduct of their Departments. Civil servants are answerable to Ministers and provide neutral advice to them and implement ministerial policy.

1½

Liberal Bureaucratic/New Administration Model

This model does not exclude the possibility that a Minister may dominate and impose his/her will on a Department. However, it suggests a variety of factors (eg numbers, permanence, expertise of and control of information by civil servants) that tilt the balance of power in favour of civil servants. It portrays a fundamentally adversarial relationship between civil servants and ministers where civil servants often obstruct and/or sabotage ministerial decisions.

1½

“Whitehall Village” Model

The civil-servant/government minister relationship is more complex in this model. Relationships are both cooperative and adversarial and operate across Departments as well as within them. Civil servants, through their common culture and networks of contacts, prepare the ground for ministerial decisions.

1½

Power-Bloc Model

This model seeks to portray civil servants as an “establishment” veto group, reflecting that the civil service has traditionally been dominated by individuals from privileged economic backgrounds. Civil servants deploy their administrative expertise and exploit their permanency in order to facilitate reactionary policy and thwart radical policy.

1½

Bureaucratic Over-Supply Model

This model is linked to the right-wing critique of Big Government, prevalent since 1970. It proposes that self-interested civil servants seek to maximise their own interests (eg status, pay, other employment conditions) and to exploit sources of power in their relationships with Ministers. This has led to the creation of an excessively large, bureaucratic civil service.

1½
(10)

- (b) *1 mark for each definition. This section needs to be marked pragmatically. The marking scheme gives examples of the types of issues that may be mentioned in answers. But candidates’ answers will be shaped by their own subjectivity and full credit must be given for any relevant points not mentioned in the marking scheme.*

1 mark for each relevant point up to a maximum of 5 marks for each of the three sections and an overall maximum of 9 marks

Permanence

Outline of meaning of permanence.

Several developments over the past 2 decades have undermined the feature of civil service permanence.

These include the appointment of increasing numbers of outside political advisers to ministers; the hiving off of the majority of civil servants into executive agencies; and the introduction of market testing and contracting out.

By 1982, 80%+ of civil service recruitment had already become a departmental responsibility.

In 1991 departments and agencies became responsible for 95% of all recruitment and, in 1996, for all pay and grading below senior staff. Civil Service Commission retained direct responsibility only for recruitment in the top grades.

From 1996, the new Senior Civil Service was created. Most senior posts continue to be filled by insiders, but door was opened for increased outside recruitment. Also provided for individual contracts, different rates of pay and performance related pay.

Overall, by the mid-1990s, a unified, career civil service no longer existed. By 1996, around 25% of Agency chief executives and many senior civil servants appointed from outside.

Neutrality

Outline of meaning of neutrality.

Thatcher-Major era tended to politicise civil servants.

For top appointments, Thatcher looked for “can do” approach rather than neutral analysis and integrity. Danger here was that civil servants would tell ministers what they wanted to hear rather than what they needed to know.

Another issue has been the increasing use of civil servants for party political purposes (eg to cost the Opposition’s policy commitments or to draft party speeches or overt criticism of Opposition policy by leading public officials).

Top civil servants are automatically politicised by engaging in the devising, promotion, execution and defence of policies and strategies rooted in adversarial partisan politics. Serious ethical questions arise when, for example, senior civil servants are required to cooperate in concealing the full truth about a policy in order to save the government’s face and prevent a publicity victory for the Opposition.

Anonymity

Outline of meaning of anonymity.

Constitutionally, ministers are responsible and accountable for all actions carried out by civil servants of their departments in pursuit of government policies or in discharge of responsibilities laid down on them by parliament.

But ministerial willingness to accept responsibility for the mistakes of civil service officials has declined. The practice of naming and shaming individual bureaucrats has increased (eg the Westland case and the Scott Enquiry).

- (c) *Maximum of 2 marks for identifying and commenting on policymaking influence on each of any 3 groups of policy actors. Examples of policy actions include:*

(6)

Pressure Groups

This category can include sectional groups (eg TUC, CBI) and cause groups (eg Greenpeace). Pressure groups which are “insider groups” have far more influence than those which are “outsider groups”. Amongst these groups, the unions used to be highly influential, but have over the past 15 years suffered a significant loss of power and standing. Industry lobby groups tend to be influential. For example, the CBI is believed to be having a major impact on the Blair Government’s attitude towards the UK’s future membership of the Euro.

Quangos

A good example is the Bank of England which, although having to achieve inflation targets set by the Government, has independence in terms of formulating and implementing monetary policy aimed at meeting the inflation target.

Media

The national press in particular frequently initiates/sustains campaigns on economic issues. Good examples here are believed to be Government attitudes towards pensions and Euro-membership policies. The media, as commentators on government policy proposals and implementation, frequently influence change in official policy.

(25)

Question 4

- (a) The previous owner acquired the building in the year to 31 December 1997. An annual WDA of 4% of £160,000 = £6,400 would have been deducted from the building's cost in each of the five years to 31 December 2001, leaving a written down value of £128,000. Only a notional WDA would be calculated for the year to 31 December 1999, since the building was in non-industrial use on that date. 1

When the building was sold (for more than original cost) a balancing charge would be made equal to the allowances given up until the date of sale. This charge would be £25,600 (4 x £6,400) giving a residue of expenditure of £128,000 + £25,600 = £153,600. There are 20 years left of the building's tax life so Highvale Trading Ltd may claim an annual WDA of £7,680 (£153,600 divided by 20). 2

The company's final adjusted trading loss for the year to 31 March 2003 becomes £266,000 (£258,320 + £7,680). 1
(4)

- (b)

Disposal of land

	£	
Disposal proceeds	20,000	½
Less: Part cost:		
(£20,000/£50,000) x £17,500	7,000	1
	13,000	
Less: Indexation allowance		
(178.2-153.0)/153.0 = 0.165		
0.165 x £7,000	1,155	½
	11,845	

Disposal of lease

	£	
Disposal proceeds	15,000	½
Less: Cost:		
(16.959/46.695) x £25,000	9,080	1
	5,920	
Less: Indexation allowance		
(178.4-150.2)/150.2 = 0.188		
0.188 x £9,080	1,707	½
	4,213	

(4)

(c)	y/e 31/3/02	y/e 31/3/03	
	£	£	
Schedule D Case I	1,230,300	nil	½
Schedule D Case III			
£21,150 - £4,430 + £3,980	20,700		1
£16,680 - £3,980		12,700	1
Chargeable gains (£16,058 - £12,758)		3,300	1
	<u>1,251,000</u>	<u>16,000</u>	
<i>Less: Charges</i>	1,000	1,000	½
PCTCT	<u>1,250,000</u>	<u>15,000</u>	
FII (£13,500 + £1,500)	nil	15,000	1
Profits	<u>1,250,000</u>	<u>30,000</u>	
	y/e 31/3/02	y/e 31/3/03	
	£	£	
Corporation tax @ 30%	375,000		½
Corporation tax @ 19%		2,850	½
<i>Less: Marginal relief</i>			
1/40 x (£1,500,000 - £1,250,000)	6,250		1
19/400 x (£50,000 - £30,000)			
x £15,000/£30,000		475	1
Corporation tax liability	<u>368,750</u>	<u>2,375</u>	(8)

(d)	y/e 31/3/02	y/e 31/3/03	
	£	£	
Schedule D Case I	1,230,300	nil	
Schedule D Case III	20,700	12,700	
Chargeable gains		3,300	
	<u>1,251,000</u>	<u>16,000</u>	
<i>Less: s393A (1) (a) relief</i>		16,000	1
<i>Less: s393A (1) (b) relief (£266,000 - £16,000)</i>	250,000		1
	<u>1,001,000</u>	<u>-</u>	
<i>Less: Charges</i>	1,000	-	
PCTCT	<u>1,000,000</u>	<u>-</u>	
FII	nil		
Profits	<u>1,000,000</u>		
Corporation tax @ 30%	300,000		
<i>Less: Marginal relief</i>			
1/40 x (£1,500,000 - £1,000,000)	12,500		
Corporation tax liability	<u>287,500</u>	<u>-</u>	(3)

(e) In the year to 31 March 2002, the s393A (1) (b) claim of £250,000 reduces the corporation tax liability by £81,250 (£368,750 - £287,500). This gives tax relief at the marginal rate of 32.5%, since £81,250 is 32.5% of £250,000. Of course, this is to be expected for a company with profits between £300,000 and £1,500,000. 1

In the year to 31 March 2003, the s393A (1) (a) claim of £16,000 (which must be made before a s393A (1) (b) claim can be made for the previous year) saves tax of £2,375, an effective rate of approximately 15%. 1

Although the rate of relief in the year to 31 March 2003 is disappointing, the overall position is that losses of £266,000 have saved tax of £83,625, giving an effective rate of relief of approximately 31.4%. 1

The only alternative would have been to carry forward the trading loss to the year to 31 March 2004, in which the company seems likely to pay tax at 30% with no marginal relief. Saving tax at 30% (and having to wait a year before this benefit is obtained) is clearly worse than saving tax at 31.4%, so the company's decision was the right one. This view is further reinforced by the fact that the company will receive interest on the corporation tax repayment of £81,250 for the year to 31 March 2002. 3

(6)

(25)

Question 5**(a)** Non-taxable employment income:

- employer's contribution to occupational pension scheme
- mileage allowance (less than 40p per mile)
- parking space
- mobile telephone
- staff party (less than £75 per head).

Non-taxable income from other sources:

- first £70 of NSB ordinary account interest
- interest on cash mini-ISA
- premium bond prize
- rent from lodger (less than rent-a-room limit of £4,250 per annum).

(4)

(b) The donations are deemed to be made net of 22% income tax. Charities are not liable to income tax so the charities concerned recover a further £143 (£507 x 22/78) from the Inland Revenue, making the donations worth £650 in total.

Howard's basic rate band for 2002/03 is extended by £650 to £28,630. This has the effect of moving £650 of income from the higher rate to the basic rate, resulting in a tax saving of £117 (18% x £650). In effect, the donations cost Howard only £390 (£507 - £117).

(2)

(c)

		£	
Schedule E:			
Gross salary		42,500	½
Less: Pension contributions (6%)	2,550		½
Payroll giving scheme donations	240		½
Mileage allowance deficit:			
2,500 @ (40p - 32p)	200		½
Professional subscription	114	3,104	½
		<u>39,396</u>	
Add: Beneficial loan:			
(£8,000 + £5,600)/2 @ (5% - 2%)		204	1
Long service award		400	½
		<u>40,000</u>	
Schedule D Case III (£5 + £115)		120	½
Schedule F (£4,860 + £540)		5,400	1
		<u>45,520</u>	
Personal allowance		4,615	½
Taxable income		<u>40,905</u>	

	£	
Non-savings income (£40,000 - £4,615):		
£1,920 @ 10%	192	
£28,630 @ 22%	6,299	
£4,835 @ 40%	1,934	
Savings income:		
£120 @ 40%	48	
Dividends:		
£5,400 @ 32.5%	<u>1,755</u>	
Tax borne	<u>10,228</u>	2 (8)

(d)

	£	
Primary Class 1 NIC's:		
(£30,420 - £4,615) = £25,805 @ 8.4%	<u>2,168</u>	1
Secondary Class 1 NIC's:		
£25,805 @ 8.3%	2,142	
(£42,900 - £30,420) = £12,480 @ 11.8%	<u>1,473</u>	
	<u>3,615</u>	1
Class 1A NIC's:		
£204 @ 11.8%	<u>24</u>	1 (3)

(e) Tests which are used to distinguish employment from self-employment:

- Control
- Financial risk
- Provision of equipment
- Work performance and correction
- Holidays and sickness
- Exclusivity 3

If Howard persuaded the County Council to treat him as a self-employed consultant, it appears that he would continue to work exclusively for the Council and that his work would still be under Council control. Presumably he would still be required to perform the work personally, would undertake no financial risk and would provide no equipment of his own. It is uncertain whether he would continue to receive holiday pay and sick pay but (apart from this) the majority of the tests outlined above clearly indicate employment. Therefore his attempt to claim self-employment status would almost certainly fail. 2

(5)

- (f) The provision of personal services via an intermediary company is caught by the "IR35" anti-avoidance legislation. This legislation applies to "relevant engagements" whereby a worker provides services through an intermediary in circumstances such that the income arising from the engagement would have been treated as income from employment if it had not been for the presence of the intermediary.

If an intermediary receives income from relevant engagements during a tax year and this income (less allowable expenses) is greater than the worker's Schedule E income from the intermediary in that year, the excess is treated as a deemed salary payment made on the last day of the year. This deemed payment is subject to both Schedule E income tax and National Insurance contributions.

In Howard's case, therefore, the income derived from his work at the County Council would continue to be taxed as if he were an employee, regardless of the fact that this income would be paid to his private company rather than to him directly.

(3)

(25)

Question 6

- (a) (i) A registered person who makes quarterly returns and whose annual VAT liability exceeds £2,000,000 is obliged to make monthly payments on account to Customs and Excise. The first payment is due one month before the end of the quarter, the second payment is due at the end of the quarter and a balancing payment is due one month after the end of the quarter. All of these payments must be made electronically (eg through the Bankers Automated Clearing System (BACS)).

Each of the two payments on account is usually calculated as 1/24th of the person's total VAT liability for the previous year. However, the person may choose to pay the actual VAT liability for each month rather than the set payments on account.

3

- (ii) In general, a person who has been VAT-registered for at least 12 months and has a taxable turnover which is not expected to exceed £600,000 in the next 12 months may join the annual accounting scheme. The main features of the scheme are as follows:

- During the year the person makes nine interim payments to Customs and Excise, each equal to 10% of the VAT liability for the previous year. These payments must be made by direct debit or by other electronic means and begin in the fourth month of the year.
- Optionally, the person may choose to make three interim payments in months 4, 7 and 10 rather than the nine interim payments referred to above. In this case, each payment is equal to 25% of the VAT liability for the previous year.
- At the end of the year the annual return is submitted together with a final payment consisting of the balance of the VAT due for the year. The return and payment must be made within 2 months of the end of the year.

A person with a taxable turnover which is not expected to exceed £100,000 per annum may join the annual accounting scheme without having to wait for 12 months after the date of registration. The interim payments in such a case are based upon the expected VAT liability for the year. Registered persons must withdraw from the scheme if their taxable turnover exceeds £750,000 for the previous year.

4

- (iii) A registered person may not join the cash accounting scheme unless:

- taxable turnover (excluding sales of capital items) is not expected to exceed £600,000 in the next 12 months;
- the person's VAT returns are up to date;
- all amounts of VAT due to be paid to Customs and Excise (including any penalties and interest) have in fact been paid, or the person has come to an arrangement for such payments to be made by installments;

- within the previous 12 months, the person has not been convicted of a VAT offence or assessed to a penalty for VAT evasion involving dishonest conduct.

A person who joins the cash accounting scheme accounts for output tax in the tax period in which payment is received from the customer and reclaims input tax in the tax period in which payment is made to the supplier. This allows the person to delay the payment of output tax to Customs & Excise until the tax has actually been received from customers, which is beneficial if customers are given extended credit. The scheme also provides automatic relief for bad debts. On the other hand, input tax cannot be reclaimed until that tax has actually been paid to suppliers.

3

(iv) A person making both taxable and exempt supplies is "partially exempt" and may recover only part of the input tax suffered. The amount of input tax which may be recovered for a tax period is the amount which is "attributed to taxable supplies". This amount is usually calculated as follows:

- Input tax suffered on goods and services which are used exclusively for the purpose of making taxable supplies is attributed to taxable supplies and is recoverable in full.
- Input tax suffered on goods and services which are used exclusively for the purpose of making exempt supplies is not attributed to taxable supplies and cannot be recovered at all.
- A proportion of any remaining input tax (on goods and services used for making both taxable and exempt supplies) is attributed to taxable supplies and may be recovered. This proportion is normally equal to the ratio of taxable supplies to total supplies.
- However, if the total amount of input tax not attributed to taxable supplies does not exceed £625 per month (on average) and is also no more than 50% of all input tax suffered, it is treated as being attributed to taxable supplies and is recoverable in full.

3

(v) A local authority supplies a range of goods/services, many of which fall outside the scope of VAT since they are not made in the course of business. But some of the activities of a local authority are regarded as business activities (eg the letting of sports facilities) and therefore do fall within the scope of VAT.

In general, it is not possible to recover input tax incurred in connection with non-business activities. However, a special scheme permits local authorities (and certain other statutory bodies) to recover such input tax. This scheme ensures that VAT does not become a financial burden on such bodies.

The business activities of a local authority (or other statutory body) are likely to involve the making of both taxable supplies and exempt supplies. Such a body will therefore be partially exempt but the usual partial exemption rules do not apply. Local authorities and similar bodies are able to recover input tax incurred in connection with their business activities as follows:

- Input tax which is attributable to taxable supplies is recovered in full.

- Input tax which is attributable to exempt supplies can be recovered if it does not exceed £625 per month or if it is less than 5% of all the input tax incurred by the body.

3

(marks also available in relation to other public sector organisations)

(vi) If a taxable person submits a late VAT return or makes a late payment of VAT, Customs and Excise may issue a surcharge liability notice specifying a surcharge period. If the person defaults again within this period, a default surcharge is levied. This surcharge is equal to the greater of £30 and a percentage of the tax which is paid late. The surcharge percentage is 2% for the first default within the surcharge period, 5% for the second default, 10% for the third default and 15% for the fourth and any subsequent default. A surcharge period comes to an end only when no defaults have occurred for a continuous 12-month period.

3

(b) The main features of the Self Assessment system which should be outlined are:

- the role of the annual tax return with supplementary pages and optional electronic filing
- the optional tax calculation section of the return
- the deadlines for submission of the tax return
- the procedure with regard to repairs, amendments and error or mistake claims
- notification of chargeability to tax
- the procedure with regard to enquiries and discovery assessments
- the appeals procedure
- record-keeping requirements.

6

(25)