

PART FIVE
GREAT BRITAIN

by

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CHAPTER XVII

ADMINISTRATIVE ORGANIZATIONAL AND PERSONNEL FRAMEWORKS

Section A. *Administrative Organizational Framework*

1.1 *Introduction*

In the United Kingdom the income tax is placed, by statute, under the care and management of the Board of Inland Revenue, that is, all the processes leading to the ascertainment and enforcement of taxpayers' liabilities are initiated and controlled by officials of the Inland Revenue Department over which the Board preside. The staff of the Department consists wholly of civil servants, recruited by the same general procedures as the officials of other departments of the central government. The members of the Board themselves are civil servants and not political appointees; and the political responsibility to Parliament for the work of the Department rests with the Chancellor of the Exchequer (the title given in the United Kingdom to the member of the Cabinet in charge of Treasury problems).

As will be seen in Chapter XX *infra*, certain independent authorities play a part in determining the legal liability in particular cases where the taxpayer disputes the calculation of the amount of tax for which the Inland Revenue Department proposes to hold him responsible. But the intervention of those authorities must be regarded as the exercise of a *judicial* function, and to that extent those authorities stand apart from the Inland Revenue Department, considered as an executive agency. The organizational framework of those authorities, therefore, is outside the scope of the present Chapter. Further, in keeping with the dominant purpose of this volume only those organs of the Department are described which contribute in some way to the resolution of substantive interpretative tax questions.

This principle of selection requires that reference first be made to agencies in the field which undertake the bulk of the work of assessing income tax liabilities, namely, the local Tax Offices. The broad principle of organization followed is to assign responsibility to a Tax Office operating in the geographical area where the source of income in question is found.

The business profits of a shopkeeper, for instance, are assessed by the Tax Office for the area where his shop is located, and so on.

However, when the total income of an individual taxpayer from all sources exceeds a specified limit, the locally assessed income tax is not the end of his liability. He is liable, in addition, to a further charge, arrived at by applying a graduated scale of complementary tax rates to his total income less authorized deductions. In the cases affected, this complementary charge—known as surtax—is in reality a deferred installment of income tax. The work of assessing this surtax has been assigned, not to the local Tax Offices, but to a distinct branch at headquarters, covering the whole country and called the Surtax Office.¹

Because of the function just described, the Surtax Office must handle, in relation to surtax, substantive interpretative tax questions closely analogous to those arising for decision in local Tax Offices. Consequently its organizational framework does fall within the scope of the present Chapter.²

Surtax, being a graduated complementary tax only on *individuals* with a sufficiently large income, does not affect the liability of corporate bodies.³ But corporate bodies (and notably limited liability companies) which carry on a trade or business are liable to a *profits* tax on their income, in addition to the income tax they suffer in common with natural persons.⁴

¹It was called formerly the Office of the Special Commissioners because, before the recent legislation clarifying the division of assessing and appellate functions, the formal responsibility for final approval of the estimates of liability prepared by Inland Revenue officials employed there rested with the Special Commissioners, the appellate body described in Chap. XX, 4.2b *infra*.

²Account will be taken also in Chaps. XVIII-XX of procedures involving the Surtax Office to the extent that they diverge in principle from the procedures affecting local Tax Offices.

³See, however, Chap. XX, 4.2c *infra*, for a reference to legislation under which surtax assessed on shareholders in certain companies may be collected from the companies.

⁴The system of taxing companies was altered considerably by the Finance Act of 1965. The income of companies was made subject to a new corporation tax (instead of income tax and profits tax), but income tax—with surtax—remained the tax on the income of individuals. From April 1966 onward, companies were made accountable for income tax withheld on the payment of dividends. The Act of 1965 also introduced a capital gains tax. Despite these changes, the procedure described in the text as existing before the 1965 legislation remains generally applicable.

This complementary tax on corporate bodies is not, however, handled by any separate office of the Inland Revenue Department for computation of such a body's liability to profits tax is in the hands of the same local Tax Office which bears responsibility for assessment of the income tax.

In summary, the organizational framework of the Inland Revenue Department, relevant as essential background to any study of the processes by which interpretative tax questions are resolved, would include the following: first, the network of local Tax Offices, together with the higher echelons by which the activities of those Offices are directed, supervised, and coordinated: secondly, the Surtax Office; and thirdly, the organization through which the Board discharge their responsibility of undertaking the care and management of the taxes involved.

1.2 *Organizational framework, national office level*

The whole organization of the Department centers round the Board. The head of the entire Department is the Chairman of the Board; he is assisted by two Deputy Chairmen and by four other Board members.

The Board exercise their function of management through their secretariat (known as the Secretaries' Office) at headquarters. Parts of this latter office are concerned with areas not relevant here, such as personnel management, but one division which is significant here is known as the Stamps and Taxes Division. It is to this Division that the Board look primarily for advice and recommendations regarding the general administrative management of the Department. This same Division also handles the day-to-day correspondence sent to the Board and deals with important questions raised by the public or by the various branches and offices of the Department.

On specifically legal questions the Board are advised by their Solicitors' Offices (one in London, and another in Edinburgh, required because of differences in the legal system of Scotland and that of the rest of the United Kingdom). The staff of the Solicitors' Offices are available to conduct litigation on behalf of the Department.

The higher direction of the work of the local Tax Offices is entrusted to the Office of the Chief Inspector of Taxes. The Chief Inspector is the official head of the service in the field, that is, the corps of Inspectors of Taxes and their supporting staffs who man the local Tax Offices; in his headquarters office in London he is assisted by two Deputy Chief Inspectors and by a number of other officials, drawn from the field service

but posted to headquarters for various specialist functions. In the main, these specialists have the task of furnishing guidance about the application of tax legislation to particular situations or particular classes of taxpayers thought to deserve separate study, whether because of inherent complexity or for any other reason. Illustratively, one small section of the Office contains the expert adviser on the grant of double taxation relief by way of credit when income derived by a United Kingdom taxpayer from an overseas country has already suffered tax in that country under the local tax legislation. Another example of a class of taxpayers requiring such expertise are companies which engage in life assurance business. But apart from those readily understood cases of specialization, two sections of the Chief Inspector's Office deserve particular mention here:

- (1) The Organization Group is concerned with all matters of general organization, including the control of work processes, in local Tax Offices, and contains the unit which prepares periodic amendments to the code of departmental instructions supplied to those Offices and mimeographed circulars supplying guidance on new problems, including those arising from new legislation or court decisions interpreting existing legislation.
- (2) The Inspectors of Taxes serving in the Special Appeals Section are available to present the Department's case in certain appeal proceedings before the Special Commissioners when it seems useful to call them in. For example, the appeal may relate to the income tax liability of a taxpayer in a provincial town: had the appeal hearing taken place locally the District Inspector in charge of the taxpayer's local Tax Office might have been expected to present the Department's case, but if the taxpayer has asked for the hearing to take place in London (because, for example, he has engaged a lawyer practicing in London to present his own side of the case), it may be more convenient to entrust the representation of the Department to the London-based Special Appeals Section.

One group of specialists at headquarters has long been concerned with the part of the tax code relating to superannuation funds and other arrangements for the payment of retirement pensions. Until recently, these specialists operated as part of the Chief Inspector's Office, but for a variety of reasons

it has now been thought more convenient to reorganize the group as a separate unit immediately responsible to the Board through their secretariat. This change in formal responsibility does not, however, imply any change in the work of the unit.

To conclude this survey of organization at national office level, it must be recalled that (as previously pointed out) the assessment of surtax is in the hands of a single central office for the whole country, the Surtax Office. That Office comprises a number of executive sections which examine the returns of income made by individual taxpayers. The work of officials in the executive sections is under the supervision of a hierarchy of officials of senior rank; and the office also includes the following:

- (1) An Organization Section which advises on office procedures and the design of forms, and
- (2) An Intelligence Division which keeps a record of important decisions of general application and assists the top management with advice on the technical content of the instructions to be issued to the staff of the executive sections.

1.3 *Organizational framework, regional office level*

A noteworthy characteristic of the organizational framework of the Inland Revenue Department, so far as the administration of income tax and profits tax is concerned, is the absence of any formally constituted regional offices standing between the national headquarters and the various local Tax Offices. The creation of any such regional offices would be contrary to the deliberate policy of delegating the maximum degree of responsibility to District Inspectors in charge of local Tax Offices. There is no room for any larger degree of delegation to an intermediate authority. The District Inspector is responsible to the Department for the efficient running of his Tax Office, and although he has to conform to the general instructions issued from headquarters, his independence is a real one.

It is, nevertheless, recognized that some aspects of the work of local Tax Offices make desirable a link between those offices and the Chief Inspector at headquarters. This is provided by the appointment of Inspecting Officers, each having the oversight of a particular group of local Tax Offices. Through the Inspecting Officers, the Chief Inspector can keep himself informed of the general progress of work in the local Tax

Offices. To provide this information, the Inspecting Officer makes regular inspection visits to the Offices in his group and keeps in close touch with the District Inspectors. He also plays an important part in the machinery of promotion by means of reports on the staff in his area. But he does not displace the headquarters specialists as the source to which the District Inspector would normally look for technical guidance in resolving substantive interpretative tax questions (though he might well be brought into consultation if the resolution of such a question gave rise to problems in ensuring that a common policy was adopted on a matter affecting several Tax Offices in the same locality).

It has already been noted that the separate legal system in Scotland accounts for the existence of a separate Solicitor's Office in Edinburgh which handles any legal problems requiring familiarity with the laws of that country. Side by side with this separate Solicitor's Office there exists the Office of the Comptroller of Stamps and Taxes. This latter Office has a variety of duties (e.g., in connection with receiving and accounting for tax payments) which are outside the scope of this study, but for the purpose of the current discussion the feature to be noted is that the Office undertakes, in Scotland, much of the work that for the rest of the United Kingdom is undertaken by the Stamps and Taxes Division of the Secretaries' Office. It would, however, be misleading to categorize the Office of the Comptroller as corresponding in any sense to a regional office of the kind found in other government departments. The Comptroller reports directly to the Board, and his office can perhaps best be regarded as comprising a geographically detached part of the Board's central secretariat which, for convenience, is placed in close proximity both to the Solicitor's Office for Scotland and to the Edinburgh headquarters of the diverse organizations catering to Scottish needs.

1.4 *Organizational framework, local office level*

In round figures there are 700 local Tax Offices. This means that the average number of taxpayers whose affairs are handled by any one Tax Office is in the neighborhood of 30,000 and that the average area covered by a Tax Office is about 130 square miles. But in a country like the United Kingdom where the population density varies from less than one inhabitant per square mile (in parts of Wales and Scotland) to well over 20,000 inhabitants per square mile (in the London area), these national averages can conceal a considerable range of variation.

Each Tax Office is headed by a District Inspector, who is supported by one or more assisting Inspectors, together with an executive and clerical staff which usually numbers between 40 and 50.

The bulk of this staff will normally be concerned with the administration of the "Pay as you Earn" scheme under which income tax is deducted currently from the wages and salaries of persons in employment. Others will be engaged on work connected with the determination of liability in respect of rents derived from the letting of property or with repayment claims lodged by taxpayers who have paid more tax, by deduction at source from dividends or other investment income, than the amount of their final liability (having regard to the reliefs granted in respect of dependents and so on).

The management of those blocks of work will be planned by the supervisors after any appropriate consultation with members of the Inspectorate. But apart from such consultation about the general running of the Tax Office, the prime duty of an Inspector who has undergone full technical training is the examination of accounts of business concerns in order to compute the assessable profit and thus the amount of liability to income tax and profits tax.

Section B. *Personnel Framework (Governmental and Non-Governmental)*

1.5 *Governmental professional personnel*

To facilitate the reader's appraisal of the procedures discussed in Chapters XVIII-XX, it will be useful to supplement the previously described organizational framework of the Inland Revenue Department with a description of the prior education and in-service training of the Departmental officials who play a leading part in the determination of tax liabilities. For this purpose, a superficial survey of the education and training of the staff in all the various grades employed in the Department probably would be less helpful than an account dealing more specifically with those officials performing technical and professional functions, and attention will therefore be concentrated on the following groups:

- (1) The professional staffs of the two Solicitors' Offices;
- (2) The examination staff of the Surtax Office; and

- (3) The members of the Inspectorate employed in local Tax Offices and, at headquarters, in the Office of the Chief Inspector of Taxes.

Recruitment of professional staff for the Solicitors' Offices is on the same lines as the recruitment for legal posts in other government departments, that is, candidates must already possess a recognized legal qualification and have had some experience in the practice of their profession. In other words, at the point of recruitment, entrants to the Solicitors' Offices will have undergone the normal professional education of a member of one or other of the two branches of the legal profession (as described in 1.6 *infra*).

On entry into one of the Solicitors' Offices, a recruit acquires familiarity with the work of his Office by actually taking part in it, under the guidance of a more senior member of the professional staff. He is not regarded as a trainee; the responsibility allocated to him recognizes that he brings with him professional qualifications and experience acquired outside the service.

In contrast to the system of recruitment to legal posts, which takes place after acquisition of a professional qualification and some outside experience, the recruitment of the Inspectors of Taxes and of the executive staff employed on examination work in the Surtax Office takes place through competitions which do not require or assume any previous study of the technical matters which will be involved in the candidates' future work. The respective competitions are adapted to test the attainments and capabilities of candidates who have completed some particular step on the ladder provided by the country's educational system. Thus the competitions through which recruitment to the Surtax Office's examining staff takes place are framed for young people leaving school after a full secondary education. The competitions through which Inspectors of Taxes are recruited cater to rather older candidates who have undertaken higher studies (up to first degree standard) at a university or similar institution.

New entrants to the Surtax Office are trained in the work of surtax examination in a special training section attached to the Office. Training consists of lectures, discussions, and practical work with revision courses and exercises, and includes organized visits to a local Tax Office and to a meeting of Appeal Commissioners. The basic training course normally lasts six months and falls into two three-month periods. In

the first period, lectures are interspersed with a certain amount of practical work, in the second period, the emphasis falls mainly on practical work, though some advanced lectures are also included. At the beginning of the second three-month period, the trainees move into a unit which is intended to form a bridge between the lecture room and the normal working sections of the Office. Here, still under the close supervision of the tutorial staff, they undertake the actual duties of surtax examination, though the volume of work allotted to two trainees will correspond to the allocation handled by a single fully-experienced surtax examiner. The object of the scheme is to provide trainees with a regular, but limited, flow of case work in an atmosphere which is a close copy of that obtaining in the main part of the Office to which they shortly will be transferred. The transition itself takes place in the last month of the second three-month period; leaving the training section the new examiner moves into the main part of the Office where he completes his training under the guidance of experienced members of the staff of the unit to which he has been transferred.

New inspectors are attached immediately to a local Tax Office, but time for study is allowed. They in fact undertake a long and systematic training for their future duties, their progress being tested by two Departmental examinations in which problems of accountancy and tax law figure prominently. As a general introduction to the Department, they pay a special initial visit to one of the eight training centers throughout the country. Thereafter, along with some members of the executive staff of Tax Offices who have been selected for full technical training and promotion into the Inspectorate, the cadet Inspectors undergo a fifteen-month Preliminary Course during which they attend a training center for two full-time periods amounting to 10 days and for 40 half-day tutorials. The Preliminary Examination follows. Inspectors who are successful in this examination then undergo the Final Course which lasts 16 months and again involves attendance at a training center both for short full-time periods and for numerous half-day tutorials. The course is followed by the Final Examination.

An Inspector who is successful in the Final Examination has completed his basic training and may anticipate transfer to an Office where, instead of being a trainee, he will be expected to take an active part (under the guidance of the District Inspector) in controlling the work of the Office. He is still, of course, broadening his experience and will have some additional formal training. During the succeeding year he will attend two

post-graduate courses, each of a week's duration, at a residential center. This further training is designed in part to assist him to fit himself for the management of a staff when he eventually takes over an independent command, but the course covers also some of the more involved technical problems encountered by members of the Inspectorate in their individual case work.

There is no separate channel of recruitment for the Inspectors on specialist work in the Chief Inspector's Office at headquarters. These officers are selected from the Inspectorate at large on the basis of apparent aptitude for the duties to be undertaken.

1.6 *Private tax practitioners*

A taxpayer who wishes to receive advice about the extent of his tax liability or the steps which he ought to take in order to establish a claim for a particular tax relief is free to obtain such advice from any source that offers it. Thus many of the companies carrying on branch banking have established departments which, for a fee, will assist the banks' customers in the preparation of their returns of income and will conduct correspondence on their behalf with the Inland Revenue Department. However, by far the greatest part of the work of advising taxpayers and representing them in their dealings with the Department falls to members of the legal and accounting professions. In fact the only professional representatives who have general statutory right to be heard on behalf of a client when the client's tax appeal comes before the General or Special Commissioners for adjudication are (1) lawyers and (2) members of one of the incorporated societies of accountants. To complement the foregoing description of the education and training of professional and technical staff in the Inland Revenue Department a brief account should therefore be given of education and training for the legal and accounting professions.

At the outset, however, it must be explained that in each of the component parts of the United Kingdom the legal profession is organized in two distinct branches.

- (1) The first branch consists of those known as barristers (in Scotland, advocates), who have the exclusive right of representing litigants in the higher courts and otherwise confine themselves to giving specialized advice on legal questions laid before them, on behalf of clients, by members of the second branch.

- (2) The second branch consists of solicitors, to whom members of the public go for all kinds of legal advice. When litigation is necessary, a solicitor may represent his client in the lower courts. Where the presentation of a client's case in any court is to be entrusted to a barrister (or advocate), the solicitor will make the necessary arrangements for this and, in particular, will supply a brief analyzing the legal issues at stake.

Admission as a barrister or advocate is in the hands of the ancient Inns of Court in London or of the corresponding body in Edinburgh or Belfast. The regulations are not entirely uniform throughout the United Kingdom, but in general a candidate must show that he has reached a prescribed standard in his general education and must also pass one or more examinations in legal subjects. The prescribed examination subjects do not necessarily include tax law.

Before admission as a solicitor a form of apprenticeship with a practicing solicitor for a prescribed period is normally required under arrangements approved by the Law Society (for England and Wales) or the corresponding Society in Scotland or Northern Ireland. A candidate must show that he has reached a prescribed standard in his general education, must pursue a suitable course of study in legal subjects, and must obtain a pass in all the subjects required for the qualifying examination. Tax law will usually be one of the subjects studied.

Almost all solicitors in private practice undertake a certain amount of tax work (if only because the settlement of outstanding tax questions is an inevitable part of the business of administering the estates of decedents). Specialization in tax matters, however, is not common among solicitors. Among barristers, on the contrary, specialization is quite common, especially at the English Bar. Any barrister possessing reputation as a tax specialist undoubtedly will acquire so much business in that one area that he will have no need to go beyond it.

Without discussing those bodies concerned solely with particular fields—e.g., the financial affairs of municipal corporations—there are four professional groups whose members all are fully qualified accountants: i.e., the Institute of Chartered Accountants in England and Wales, the Institute of Chartered Accountants of Scotland, the Institute of Chartered Accountants in Ireland, and the Association of Certified and Corporate Accountants. Nevertheless, the membership requirements for

these four groups are not entirely uniform. Normally, a candidate first must have served an apprenticeship with an actively practicing member of the body concerned, but in certain circumstances the Association of Certified and Corporate Accountants accepts "as an alternative . . . practical experience in the finance or accounting department of a commercial or industrial company, in a nationalized industry or in local government. . . ."⁵ Candidates must also show that they have reached a certain standard in their general education and must pass a series of examinations in professional subjects. Taxation law and practice will always be one of the subjects in which candidates are tested.

The range of work undertaken by a firm of practicing accountants will vary to some extent with the size and connections of the firm. But an important part of the work of the majority of practicing accountants is the preparation and audit of the accounts of business concerns of all kinds. This work naturally leads on to the discussion with local Tax Offices of the clients' tax liabilities in respect of the profits shown by those accounts. Thus almost all practicing accountants undertake some tax work. Within a large firm there is a possibility that some of the partners and the supporting staff will specialize in tax questions, leaving their colleagues to handle other branches of the firm's business.

⁵H.M.S.O., *Choice of Careers: The Accountant* 14 (3d ed. 1963).