

[2017] UKFTT 814 (TC)



TC06209

Appeal number: TC/2016/05247

Excise and Customs Duty - importation of tobacco products - appeal against Civil Evasion Penalties - s 25(1) of Finance Act 2003 and s 8(1) of Finance Act 1994 - whether dishonesty - yes - whether allowances given to reduce penalties correct - yes - appeal dismissed

FIRST-TIER TRIBUNAL

TAX CHAMBER

OBEADULLAH YOSEFI

Appellant

- and -

HM REVENUE AND CUSTOMS

Respondents

**TRIBUNAL: JUDGE MICHAEL CONNELL
MEMBER PETER SHEPPARD**

Sitting in public at Alexandra House, 14 -22 The Parsonage, Manchester on 3 August 2017

The Appellant in person

Ms Joanna Vicary, Counsel, instructed by the General Counsel and Solicitor to HM Revenue and Customs, for the Respondents

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1. This is an appeal by Mr Obeadullah Yosefi (“the Appellant”) against a decision by the Respondents (“HMRC”) notified on 11 May 2016, to issue Excise and Customs Civil Evasion Penalties in the total sum of £1,309 under s 25(1) of Finance Act 2003 for the evasion and/or attempted evasion of Customs Duty, and under s 8(1) of Finance Act 1994 for the evasion and/or attempted evasion of Excise Duty, in that he failed to declare cigarettes and tobacco which he was importing into the United Kingdom above the personal allowance of 200 cigarettes or 250g of tobacco.

Background

2. On 17 March 2015, the Appellant was stopped and questioned by a UK Border Force Officer on entering the Green ‘nothing to declare’ channel at Manchester Airport, arriving from Afghanistan via Dubai.

3. From disembarkation to clearing Customs there are displayed a number of notices advising which countries fall inside/outside the European Union (“EU”) and also the duty free allowances for excise dutiable products acquired outside the EU. Afghanistan is not in the EU and therefore, returning travellers, for the purposes of the Travellers’ Allowances Order 1994, have a personal allowance of 200 cigarettes.

4. Despite the notices, which are also situate in the baggage reclaim area and just before the Customs channel entrances, the Appellant chose to exit through the ‘nothing to declare’ Green channel, indicating that he had no goods to declare, at which point the Appellant was intercepted by Officer Matthew Keane, a UKBF Officer.

5. Officer Keane’s evidence is that the Appellant confirmed he had travelled from Afghanistan. He was then asked if he understood that there are certain goods travellers are not allowed to bring into the United Kingdom such as drugs, offensive weapons or indecent/obscene material. The Appellant confirmed that he understood and that he was not carrying any such items. He was asked if he understood his allowances and replied that he did.

6. The Appellant confirmed when asked that the bags he had with him were his and confirmed that he had packed them himself. He confirmed that he was aware of the contents of his luggage.

7. On conducting a search of the Appellant’s luggage, 5,980 John Player Gold Leaf Cigarettes were found. In total, the overall quantity of goods seized was twenty-nine times over the Appellant’s personal allowance.

8. As the goods had not been declared and were over the allowances as set out in the Travellers’ Allowances Order 1994 (as amended), Officer Keane seized the goods as liable to forfeiture under s 139 of the Customs and Excise Management Act 1979 (“CEMA”) and issued the Appellant with Public Notices 1 and 12A, being Seizure

5 Information Notice C156 and Warning Letter BOR162, both of which the Appellant signed.

9. The legality of seizure was not challenged in the Magistrates' court and the seizure was therefore deemed to be legal pursuant to paragraph 5 schedule 3 CEMA.

10. On 24 March 2016, HMRC's Officer Stephanie Elizabeth Simpson of HMRC's
10 International Trade and Excise Compliance Unit (Officer Simpson) wrote to the Appellant at the address he had provided, informing him that HMRC would be conducting an enquiry into the matter and that the imposition of a Civil Evasion Penalty, under s 25(1) of the Finance Act 2003 and under s 8(1) of the Finance Act 1994 for the evasion of Customs and Excise Duty was to be considered. The
15 Appellant was invited to co-operate with the enquiry and advised of the action he could take to reduce any potential penalty. The letter enclosed Public Notice 300 in respect of Customs Duty and Import VAT and Public Notice 160 in respect of Excise Duty and invited any disclosure by the Appellant. The letter made it clear that any reduction in the penalty was contingent on the Appellant's response and co-operation
20 with HMRC's enquires.

11. The letter from Officer Simpson explained that if the Appellant was willing to co-operate with the enquiry he should provide the following within 30 days of the date of her letter:

- 25 • "A copy of this letter, signed and dated by you, as acknowledgement that you have read and understood Factsheet CC/FS9, Public Notice 160, and Public Notice 300. A copy is enclosed for this purpose.
- Confirmation of who was involved in the smuggling or attempted smuggling, exactly what they did and why they did it.
- 30 • A full explanation as to how the smuggling or attempted smuggling was carried out.
- Confirmation of how many times, and when, alcohol or tobacco products were smuggled into the UK, or attempts made to smuggle them.
- 35 • Confirmation of the quantities of goods involved on each occasion.
- Evidence of the cost of the goods, such as receipts, invoices, or bank statements.
- Details of all international travel during the period under enquiry, including the reasons for travel.
- An explanation of what you did with, or intended to do with, the smuggled goods.
- 40 • Any documentation you think will support the information you are providing.
- Any other information or explanations you think may be of use to this enquiry."

12. Officer Simpson referred the Appellant to Public Notice 300, s 3 where it states that a reduction in penalty may be given as follows:

45 "Disclosure

During the investigation an early and truthful admission of the extent of the arrears and why they arose will attract a considerable reduction (up to 40 per cent). By the extent

5 of the arrears we mean what has happened and over what period of time, along with any information about the value involved, rather than the precise quantification.

Co-operation

You will receive further mitigation (up to 40 per cent) if you:

- attend all the interviews (where necessary);
- 10 • provide all information promptly;
- answer all questions truthfully;
- give the relevant information to establish your true liability;
- co-operate until the end of the investigation.”

15 13. As no response had been received, on 6 April 2016 HMRC sent a reminder letter requesting a response by 24 April 2016.

14. On 12 April 2016 the Appellant rang HMRC confirming he had received the Officer's correspondence.

20 15. By a letter dated 17 April 2016 the Appellant wrote to HMRC outlining the reasons why he should not receive a penalty, enclosing a letter from his doctor, confirming he smokes 20 cigarettes a day.

25 16. After considering the Appellant's letter dated 17 April 2016, Officer Simpson issued a Civil Evasion Notice of Assessment (CEP16/0257) in the sum of £1,309 to the Appellant being £378 Customs Civil Evasion penalty and £1,368 Excise Civil Evasion penalty which was calculated on the total – 5,780 cigarettes. The Excise Duty and Import VAT that would be due on the cigarettes seized totalled £1,746. The figure was based on 5,780 cigarettes, taking into account the 200 cigarette allowance for duty-free importation.

30 17. Officer Simpson says in her evidence that the Appellant confirmed he bought the cigarettes because they were cheaper abroad, but denies smuggling as he states he was not aware he could not bring cigarettes from abroad when the UK duty had not been paid. This in her opinion was itself a contradiction as he was admitting he knew that the cigarettes were duty free.

35 18. When mitigating the penalty, Officer Simpson considered the information provided by the Appellant in his letter dated 17 April 2016, but did not feel he fully co-operated with her enquiry. He had responded within the given timescale but only provided limited information. He did not confirm the event in question although he states in his letter – “As already explained over the phone the cigarettes were for my own use” and “they were cheaper abroad”. He did not confirm any travel details, 40 dates, amount of cigarettes seized or how the smuggling attempt was carried out.

45 19. A reminder letter was issued to the Appellant on 6 April 2016. This letter was issued because he did not reply within the time limits to the initial letter dated 24 March 2016. This asked the Appellant to read the public notices and fact sheets which accompanied the letter, to sign and date the letter and send it back to HMRC. He returned the letter; however he did not sign it as requested.

- 5 20. The Notice of Assessment explained how the penalty had been calculated and advised that 15% reduction had been allowed for disclosure out of a maximum 40%, and a 10% reduction for co-operation out of a maximum of 40%.
21. By a letter dated 7 June 2016 the Appellant stated that he did not bring the cigarettes into the UK to sell, and that he would like to pay the penalty but did not
10 have the funds to pay such all at once. He also stated he hoped to retrieve his cigarettes from HMRC once he had paid the penalty.
22. On 30 June 2016 HMRC wrote to the Appellant advising that his debt had been referred to Debt Management on 15 June 2016, who would write to him about payment of the debt.
- 15 23. On 5 July 2016 the Appellant telephoned HMRC and gave permission to speak to his sister on his behalf. She explained that the letter of 7 June 2016 was a mistake. He did not want to pay the penalty. Also, as his goods had been seized he did not think he should pay the duty and wanted the case reviewed by an Officer not previously involved in the case.
- 20 24. By a letter dated 5 July 2016 the Appellant wrote to Officer Simpson appealing her decision to issue the joint Civil Evasion penalty, outlining his reasons why he should not receive a penalty.
25. On 19 August 2016 the outcome of the review undertaken by Officer Andrea Smith was notified and advised the decision was upheld.
- 25 26. By Notice of Appeal dated 14 September 2016, the Appellant appealed the decision of the Respondents to issue a penalty.
27. The Notice of Appeal included an application for permission to make a late appeal. HMRC say that they have no objection to the appeal proceeding.

Evidence

- 30 28. The combined bundle of documents included the witness statement of Officer Keane. Officer Keane gave oral evidence under oath to the Tribunal. The Appellant also gave oral evidence to the Tribunal under oath. We were also provided with copy correspondence, copy relevant legislation and case law authority.

The Law

- 35 29. The legislation relevant to this appeal is:

Finance Act 1994, Sections 8(1), 8(4) and 8(5)

Penalty for evasion of excise duty.

(1) Subject to the following provisions of this section, in any case where -

- 5 (a) any person engages in any conduct for the purpose of evading any duty of excise,
and
- (b) his conduct involves dishonesty (whether or not such as to give rise to any
criminal liability),
- 10 that person shall be liable to a penalty of an amount equal to the amount of duty evaded
or, as the case may be, sought to be evaded.
- (4) Where a person is liable to a penalty under this section -
- (a) the Commissioners or, on appeal, an appeal tribunal may reduce the penalty to
such amount (including nil) as they think proper; and
- 15 (b) an appeal tribunal, on an appeal relating to a penalty reduced by the
Commissioners under this subsection, may cancel the whole or any part of the
reduction made by the Commissioners. (...)
- (5) Neither of the following matters shall be a matter which the Commissioners or any
appeal tribunal shall be entitled to take into account in exercising their powers under
subsection (4) above, that is to say-
- 20 (a) the insufficiency of funds available to any person for paying any duty of excise or for
paying the amount of the penalty;
- (b).....”

Finance Act 2003, Sections 25(1) and 29(1)(a)

s25 Penalty for evasion.

- 25 (1) in any case where
- (a) a person engages in any conduct for the purpose of evading any relevant tax or
duty, and
- (b) his conduct involves dishonesty (whether or not such as to give rise to any
criminal liability),
- 30 that person is liable to a penalty of an amount equal to the amount of the tax or duty
evaded or, as the case may be, sought to be evaded. (...)
- 29 Reduction of penalty under section 25 or 26.
- (1) Where a person is liable to a penalty under section 25 or 26 -
- (a) the Commissioners (whether originally or on review) or, on appeal, an appeal
35 tribunal may reduce the penalty to such amount (including nil) as they think proper;
and
- (b) the Commissioners on a review, or an appeal tribunal on an appeal, relating to a
penalty reduced by the Commissioners under this subsection may cancel the whole or
any part of the reduction previously made by the Commissioners. (...)
- 40 (2) In exercising their powers under subsection (1), neither the Commissioners nor an
appeal tribunal are entitled to take into account any of the matters specified in subsection
(3)
- (3) Those matters are –
- (a) the insufficiency of the funds available to any person for paying any relevant tax or
45 duty or the amount of the penalty;

5 (b)

(c)

Customs and Excise Management Act 1979, Sections 49(1), 78(3) and 139

49(1) Where -

10 a) except as provided by or under the Customs and Excise Acts 1979, any imported goods, being chargeable on their importation with customs or excise duty, are, without payment of that duty -

(i) unshipped in any port,

those goods shall ...be liable to forfeiture.

Customs and Excise control of persons entering or leaving the United Kingdom.

15 S78(3) Any person failing to declare anything or to produce any baggage or thing as required by this section shall be liable on summary conviction to a penalty of three times the value of the thing not declared or of the baggage or thing not produced, as the case may be, or [level 3 on the standard scale], whichever is the greater. (...)

S139 Provisions as to detention, seizure and condemnation of goods

20 (1) Anything liable to forfeiture under the Customs and Excise Acts may be seized or detained by any officer or constable or any member of Her Majesty's armed forces or coastguard.

25 (2) Where anything is seized or detained as liable to forfeiture under the Customs and Excise Acts by a person other than an officer, that person shall, subject to subsection (3) below, either -

(a) deliver that thing to the nearest convenient office of Customs and Excise; or

(b) if such delivery is not practicable, give to the Commissioners at the nearest convenient office of Customs and Excise notice in writing of the seizure or detention with full particulars of the thing seized or detained.

30 (3) Where the person seizing or detaining anything as liable to forfeiture under the Customs and Excise Acts is a constable and that thing is or may be required for use in connection with any proceedings to be brought otherwise than under those Acts it may, subject to subsection (4) below, be retained in the custody of the police until either those proceedings are completed or it is decided that no such proceedings shall be brought.

35 (4) The following provisions apply in relation to things retained in the custody of the police by virtue of subsection (3) above, that is to say -

40 (a) notice in writing of the seizure or detention and of the intention to retain the thing in question in the custody of the police, together with full particulars as to that thing, shall be given to the Commissioners at the nearest convenient office of Customs and Excise;

(b) any officer shall be permitted to examine that thing and take account thereof at any time while it remains in the custody of the police;

(c) nothing in [section 31 of the Police (Northern Ireland) Act 19987 shall apply in relation to that thing.

45 (5) Subject to subsections (3) and (4) above and to Schedule 3 to this Act, anything seized or detained under the Customs and Excise Acts shall, pending the determination

5 as to its forfeiture or disposal, be dealt with, and, if condemned or deemed to have been
condemned or forfeited, shall be disposed of in such manner as the Commissioners may
direct.

10 (6) Schedule 3 to this Act shall have effect for the purpose of forfeitures, and of
proceedings for the condemnation of anything as being forfeited, under the Customs and
Excise Acts.

(7) If any person, not being an officer, by whom anything is seized or detained or who
has custody thereof after its seizure or detention, fails to comply with any requirement of
this section or with any direction of the Commissioners given thereunder; he shall be
liable on summary conviction to a penalty of level 2 on the standard scale.

15 (8) Subsections (2) to (7) above shall apply in relation to any dutiable goods seized or
detained by any person other than an officer notwithstanding that they were not so seized
as liable to forfeiture under the Customs and Excise Acts.

Paragraph 5 Schedule 3 CEMA states:

20 If on the expiration of the relevant period under paragraph 3 above for the giving of
notice of claim in respect of anything no such notice has been given to the
Commissioners, or if, in the case of any such notice given, any requirement of paragraph
4 above is not complied.

Travellers' Allowances Order 1994

25 1. This Order may be cited as the Travellers' Allowances Order 1994 and shall come
into force on 1st April 1994.

30 2. (1) Subject to the following provisions of this Order a person who has travelled
from a third country shall on entering the United Kingdom be relieved from payment of
value added tax and excise duty on goods of the descriptions and in the quantities shown
in the Schedule to this Order obtained by him in a third country and contained in his
personal luggage,.

(2) For the purposes of this article -

35 (a) goods shall be treated as contained in a person's personal luggage where they
are carried with or accompanied by the person or, if intended to accompany him,
were at the time of his departure for the United Kingdom consigned by him as
personal luggage to the transport operator with whom he travelled;

(b) a person shall not be treated as having travelled from a third country by reason
only of his having arrived from its territorial waters or air space;

40 (c) "third country", in relation to relief from excise duties, shall mean a place to
which Council Directive 92/12/EEC of 25th February 1992 does not apply; and, in
relation to relief from value added tax, shall have the meaning given by Article
3(1) of Council Directive 77/388/EEC of 17th May 1977 (as substituted by Article
1.1 of Council Directive 91/680/EEC of 16th December 1991

45 3. The reliefs afforded under this Order are subject to the condition that the goods in
question, as indicated by their nature or quantity or otherwise, are not imported for a
commercial purpose nor are used for such purpose; and if that condition is not complied
with in relation to any goods, those goods shall, unless the non-compliance was
sanctioned by the Commissioners, be liable to forfeiture.

5 4. No relief shall be afforded under this Order to any person under the age of 17 in respect of tobacco products or alcoholic beverages.

HMRC Public Notices

HMRC Notice 300 Customs civil investigation of suspected evasion

2.4 Penalty for evasion of the relevant tax or duty

10 A penalty may be imposed in any case where:

- a person engages in any conduct for the purpose of evading any relevant tax or duty; and
 - his conduct involves dishonesty (whether or not such as to give rise to any criminal liability).
- 15
- The penalty that the law imposes is an amount equal to the relevant tax or duty evaded or sought to be evaded.

The penalty can be mitigated (reduced) to any amount, including nil. Our policy on how the penalty can be reduced is set out in Section 3.

3.2 By how much can the penalty be reduced?

20 You should tell us about anything you think is relevant during the investigation. At the end of the investigation we will take into account the extent of your co-operation.

The maximum penalty of 100 per cent import duties evaded will normally be reduced as follows:

- Up to 40 per cent -early and truthful explanation as to why the arrears arose and the true extent of them.
 - Up to 40 per cent - fully embracing and meeting responsibilities under the procedure by, for example: supplying information promptly, providing details of the amounts involved, attending meetings and answering questions.
- 25

30 In most cases, therefore, the maximum reduction obtainable will be 80 per cent of the value of import duties on which penalties are chargeable. In exceptional circumstances however, consideration will be given to a further reduction, for example, where you have made a complete and unprompted voluntary disclosure.

HMRC Notice 160 Compliance checks into indirect tax matters

2.3 How can penalties be reduced?

35 It is for you decide whether or not to co-operate with our check, but if you do you should be truthful as making a statement to us you know to be false, you could face prosecution.

If you choose to co-operate and disclose details of your true liability then you can significantly reduce the amount of any penalties due.

40 You should tell us about anything you think is relevant when we are working out the level of the penalty. At the end of the check we will take into account the extent of your cooperation.

2.3.1 Reductions under Civil Evasion Penalty Rules

The maximum penalty of 100% tax evaded will normally be reduced as follows:

- 5
- up to 40% - early and truthful explanation as to why the arrears arose and the true extent of them
 - up to 40% - fully embracing and meeting responsibilities under this procedure by, for example, supplying information promptly, quantification of irregularities, attending meetings and answering questions.

10 In most cases, therefore, the maximum reduction obtainable will be 80% of the tax on which penalties are chargeable. In exceptional circumstances however, consideration will be given to a further reduction, for example, where you have made a full and unprompted voluntary disclosure.

The Appellant's Case

15 30. In the Appellant's Notice of Appeal he does not deny that the amount of tobacco imported was over the permissible limits. He appeals HMRC's decision to assess the penalty at £1,309 on the following grounds:

- He is a heavy smoker and has sought help in the past from his doctor to help him quit.
- 20
- He had purchased the goods for personal use; he smokes on average 20 cigarettes a day.
 - He bought them because they were cheaper than in the UK.
 - He is not selling the cigarettes.
 - He was not aware of restrictions on bringing cigarettes into the UK.
- 25
- He has four children to support.
 - He isn't dishonest as he did not know about the rules.
 - It was his first time bringing in cigarettes from abroad.
 - He doesn't speak, read or write English very well.

30 31. At the hearing, the Appellant gave evidence and said that he had been returning from a visit to Kabul to see his father. He said that he had travelled to Afghanistan and back to the UK three times before and had also travelled to other countries. He had lived in the UK for 18 years. His English was reasonably good. He had bought the cigarettes in Kabul. He bought them there because they were so much cheaper than in

35 the UK.

5 **HMRC's Case**

32. On 17 March 2015, by entering the Green 'nothing to declare' channel at Manchester Airport, it was implicit that the Appellant was acting dishonestly and deliberately taking action to positively evade duty and tax given that:

- 10 a) The Appellant entered the Green channel, indicating that he had nothing to declare despite significant signage present.
- b) The Appellant does not deny that the amount of cigarettes imported was over the permissible limits.
- c) The Appellant told the UKBF Officer that he was aware of the allowances relating to cigarettes and tobacco.
- 15 d) The Appellant was carrying 5,980 cigarettes – twenty-nine times his personal allowance.
- e) A number of notices are visible to passengers entering the UK, both in the baggage reclaim area and at the entrance to Customs channels. These explain which countries are inside and outside the European Union and the
- 20 duty free allowances for excise goods.
- f) It is well known that Afghanistan is outside the EU for excise purposes. The Appellant should have been fully aware that he was bringing more goods into the country than he was entitled to without declaring them.
- g) The Appellant would have been aware that there were limits on the
- 25 number of cigarettes he could import. Although he may not have been aware of the exact allowance he would have known that twenty-nine packets each containing 200 cigarettes was too much. That knowledge should have prompted an honest traveller to check the allowances before entering the Green channel.
- h) Not doing so in the belief that the amount was likely over the allowances
- 30 constitutes dishonest behaviour. A reasonable and honest person would check the allowances before importing a large amount of cigarettes. Failing to declare under those circumstances constitutes dishonest behaviour.

35 33. HMRC are entitled under s 8(1) of the Finance Act 1994 and s 25(1) of the Finance Act 2003 to issue the Appellant with a penalty because he acted dishonestly and deliberately took action to positively evade duty and tax.

40 34. A finding of dishonesty requires that act undertaken (entering the Green channel with an amount of excise goods above the allowance) was dishonest by the standards of an ordinary, reasonable person and that the Appellant realised that what he was doing was, by those standards, dishonest.

5 35. The appropriate standard of proof is the balance of probabilities: *Re B (Children)* [2008] UKHL 35.

36. The Tribunal in *Ghandi Tandoori Restaurant* (1989) VATTR 39 considered the meaning of the word ‘dishonesty’.

10 ‘It seems to us clear that in such a context, where a person has, ex hypothesi, done, or omitted to do, something with the intention of evading tax, then by adding that the conduct must involve dishonesty before the penalty is to attach, Parliament must have intended to add a further mental element in addition to the mental element of intending to evade tax. We think that that element can only be that when he did, or omitted to do, the act with the intention of evading tax, he knew that according to the ordinary standards of reasonable and honest people that what he was doing would be regarded as dishonest.’

20 37. Dishonesty in this context follows the guidance given by the Court of Appeal in *R v. Ghosh* [1982] 1 QB 1053, CA, where a two-step test for showing dishonesty was set out:

25 ‘In determining whether the prosecution has proved that the defendant was acting dishonestly, a jury must first of all decide whether according to the ordinary standards of reasonable and honest people what was done was dishonest. . . . If it was dishonest by those standards then the jury must consider whether the defendant himself must have realised that what he was doing was by those standards dishonest. In most cases, where the actions are obviously dishonest by ordinary standards, there will be no doubt about it. It will be obvious that the defendant himself knew that he was acting dishonestly. It is dishonest for a defendant to act in a way which he knows ordinary people consider to be dishonest, even if he asserts or genuinely believes that he is morally justified in acting as he did.....’

35 38. ‘Dishonest’ should be given its ordinary English meaning, namely ‘not honest, trustworthy, or sincere’. The correct test for establishing dishonesty as stated in the High Court case of *Sahib Restaurant v HM Revenue & Customs* (February 2008 - unreported) is found in the case of *Barlow Clowes International Limited (in liquidation) and others v Eurotrust International Limited and others* [2005] UKPC. In
40 this case it was held that the test laid down in *Royal Brunei Airlines Sdn Bhd v Tan* 9951 2 AC 378 was the correct test and was summarised as follows:

45 ‘...although a dishonest state of mind is a subjective mental state, the standard by which the law determines whether it is dishonest is objective. If by ordinary standards, a defendant’s mental state would be characterised as dishonest, it is irrelevant that the defendant judges by different standards. The Court of Appeal held this to be a correct statement of the law and their Lordships agree.’

- 5 39. The Appellant's actions as set out above demonstrate that he acted dishonestly and deliberately took the action to positively evade duty and tax. His attempt to clear import controls without paying any duties by walking through the Green channel 'nothing to declare' with the concealed cigarettes demonstrates his intent to positively evade duty and tax.
- 10 40. If the Appellant had not been stopped, the loss of Customs and Excise Duty to the Crown would have been £1,746, in addition to any potential sale value of the goods.
41. Because the Appellant acted dishonestly and deliberately took the action to positively evade duty and tax, HMRC are entitled under s 8(1) of the Finance Act 1994 and s 25(1) of the Finance Act 2003 to issue the Appellant with a penalty.
- 15 42. The legislation at s 8(1) of the Finance Act 1994 and s 29(1)(a) of the Finance Act 2003 provide that the Commissioners, or on appeal an appeal Tribunal, may reduce the penalty up to nil.
43. The penalty is based on the amount of Customs Duties, Import VAT and assessed excise duty that was involved in the offence. In this case the penalty is £1,309, being
- 20 75% of the culpable arrears.
44. HMRC exercised its discretion as to the amount of discount to be allowed. A 15% deduction was allowed for disclosure and a further 10% for co-operation (both out of a maximum of 40%) which in the circumstances was considered reasonable. Officer Simpson who undertook the review said that she had not been able to give the full
- 25 40% allowance for either disclosure or co-operation because the Appellant had failed to provide the information requested. She believed it was inherently improbable that the Appellant, having previously travelled to the UK from a non-EU country, believed he was entitled to import 5,980 cigarettes, which represented twenty-nine times his allowance.
- 30 45. The Appellant has submitted in correspondence and in his Notice of Appeal that he cannot afford to pay the penalty. The Finance Act 1994, s 8(5)(a) and Finance Act 2003, s 29(2) and (3)(a) preclude the Commissioners or an appeal tribunal from taking into account the insufficiency of the funds available to pay when considering reduction of the penalty.
- 35 46. The Appellant has not shown grounds to successfully appeal the decision to issue the penalty.

Conclusion

- 40 47. The Appellant imported the cigarettes from Afghanistan. There are strict limits on the number of cigarettes that can be brought into the UK. It is well known that tax and duty is payable on imported cigarettes. The airport has clear signage which describes the allowances. The signage is designed to inform travellers who are not aware of importation restrictions. Afghanistan is a non-EU country and so there could be no

5 confusion with the ‘unlimited for own use’ provisions which are applicable when importing from EU countries.

48. It is clear from the Appellant’s own evidence that he knew Customs duty was an issue. That was the reason why he explained he had purchased the cigarettes in Afghanistan.

10 49. The Appellant had previously travelled to the UK from a non-EU country on at least one occasion and it is more likely than not that he would have been aware of the allowances. In any event, a reasonable person would check the allowances before importing such a large number of cigarettes. We found, on the balance of probabilities that the Appellant would have known of the existence of the allowances for importing tobacco and cigarettes.

15 50. The issue as to whether or not the cigarettes were for personal use does not arise. The facts of the matter are not in dispute and the Appellant did not challenge the legality of seizure of the goods within the statutory time limit. Where there is no timely challenge, the law provides that the goods are deemed to be condemned as forfeited and what that means in practice, is that, in law, the Appellant is deemed to have imported the goods for commercial use. That is a final decision and the Tribunal has no jurisdiction to consider that issue any further.

20 51. The issue in this appeal is therefore whether or not the penalties which have been imposed were properly imposed. That raises the question of whether the Appellant has been dishonest. The test for dishonesty when issuing a civil evasion penalty is an objective one and involves assessing whether the actions of the taxpayer were dishonest by the ordinary standards of reasonable and honest people.

25 52. In the recent case of *Ivey v Genting Casinos (UK) Ltd t/a Crockfords*, released on 25 October 2017, the Supreme Court said [at paragraph 74 of the judgment]:

30 ‘These several considerations provide convincing grounds for holding that the second leg of the test propounded in *Ghosh* does not correctly represent the law and that directions based upon it ought no longer to be given. The test of dishonesty is as set out by Lord Nicholls in *Royal Brunei Airlines Sdn Bhd v Tan* and by Lord Hoffmann in *Barlow Clowes*. When dishonesty is in question the fact-finding tribunal must first ascertain (subjectively) the actual state of the individual’s knowledge or belief as to the facts. The reasonableness or otherwise of his belief is a matter of evidence (often in practice determinative) going to whether he held the belief, but it is not an additional requirement that his belief must be reasonable; the question is whether it is genuinely held. When once his actual state of mind as to knowledge or belief as to facts is established, the question whether his conduct was honest or dishonest is to be determined by the fact-finder by applying the (objective) standards of ordinary decent people. There is no requirement that the defendant must appreciate that what he has done is, by those standards, dishonest.’

40 53. The burden of proof for dishonesty in a civil evasion penalty case is the civil standard and assessed on the balance of probabilities (*Tahir Iqbal Khawaja v HMRC* [2008] EWHC 1687 (Ch.), [2009] 1WLR 398 at [25]).

5 54. The Appellant would have been fully aware that he was bringing more goods into the country than he was entitled to without declaring them. We have to conclude that the Appellant acted dishonestly and deliberately, taking action to positively evade duty and tax.

10 55. The Appellant has not offered any grounds on which he could successfully challenge the decision to issue the penalty. Hardship is not a valid ground of appeal. Finance Act 1994, s 8(5)(a) and Finance Act 2003, s 29(2) and (3)(a) preclude the Commissioners or an appeal tribunal from taking into account the insufficiency of the funds available to pay when considering reduction of the penalty.

15 56. As the Appellant dishonestly attempted to evade import VAT, Excise and Customs duties, a penalty is due under s 8(1) Finance Act 1994 and s 25(1) Finance Act 2003.

20 57. HMRC can reduce a penalty on the basis of the customer's co-operation. There are two factors determining the level of any reduction. Firstly, there can be a reduction for an early and truthful explanation as to why the arrears arose. Secondly, there can be a reduction for fully embracing and meeting responsibilities under the enquiry procedure. Taking these factors into account, and the fact that the Appellant did not provide all the information Officer Simpson requested, the penalty has in our view been calculated correctly and reduced appropriately for disclosure and co-operation resulting in a total reduction of 25%. We concur with Officer Simpson's
25 assessment of the penalty.

58. The Appellant has not provided any grounds to show why the decision to issue the penalties should not be upheld.

30 59. No challenge has been brought to the calculation of the duties and the Appellant has not in any event shown why the penalty has not been calculated correctly and to best judgment.

60. The appeal is accordingly dismissed and the penalties totalling £1,309 confirmed.

35 61. This document contains full findings of fact and reasons for the decision. Any party dissatisfied with this decision has a right to apply for permission to appeal against it pursuant to Rule 39 of the Tribunal Procedure (First-tier Tribunal) (Tax Chamber) Rules 2009. The application must be received by this Tribunal not later than 56 days after this decision is sent to that party. The parties are referred to "Guidance to accompany a Decision from the First-tier Tribunal (Tax Chamber)" which accompanies and forms part of this decision notice.

40 **MICHAEL CONNELL**
TRIBUNAL JUDGE

RELEASE DATE: 8 NOVEMBER 2017