



HM Revenue
& Customs

Cash, tax evasion and the hidden economy

Call for evidence

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1. Introduction

About this call for evidence

- 1.1 This Government is committed to cracking down on tax evasion. At Summer Budget 2015, the Government announced a number of measures to target those who evade taxes to ensure that all businesses and individuals make a fair contribution towards reducing the deficit.
- 1.2 HMRC's experience shows that cash can play a role in facilitating evasion (that is, where individuals or businesses deliberately and illegally do not declare and account for the taxes they owe), and the hidden economy (where businesses fail to register for tax, or individuals fail to declare a source of income). This call for evidence seeks a better understanding of the link between cash, evasion and the hidden economy.
- 1.3 Recent publications from a variety of sources have described a relative decline in the use of cash as a payment method. Cash has an important role in society, and tax is far from the only factor for government to consider when thinking about that role. For example, cash remains an important medium of exchange for most businesses and individuals, and may be of particular importance to certain groups or organisations, such as those in the charitable sector. However, as the UK's tax authority, HMRC is conducting research into the role of cash in facilitating non-compliance, and into the trends which are likely to change that role. HMRC is conducting analysis of internal data from evasion and hidden economy compliance work, as well as external commercial data, to better understand the role that cash currently plays in non-compliance. HMRC has also commissioned external social research into the ways in which businesses and consumers use cash and non-cash alternatives in transactions, and the ways that their use might change in the future. This call for evidence seeks facts and perspectives which will support this research.
- 1.4 For the purposes of this call for evidence, "cash" means notes and coins (notes issued by the Bank of England and commercial Scottish and Northern Ireland banks, and coins issued by HM Treasury).

Who should respond to this call for evidence?

- 1.5 The Government is interested in responses from individuals, businesses, tax and other representative bodies, charities, the financial services and financial technology sectors, retailers, and any other industries that regularly handle cash. Furthermore, the Government welcomes views from anybody interested in the topic of what the changes in the use of cash mean for tax compliance.

Background

- 1.6 HMRC has noted recently published studies and articles about the use of cash, as well as a rapidly changing payment landscape accelerated by an increase in disruptive payment technologies. Overall, the trends indicate that the use of cash

by both consumers and businesses is in relative decline, as they increasingly turn to alternative payment methods.

- 1.7 The Bank of England, drawing on statistics from Payments UK, reported in their Q3 Quarterly Bulletin that for spontaneous payments (for goods and services purchased at the point of sale, for example from retailers either face to face, online or by telephone), 52% of the volume of payments are made in cash and this represents a gradual, relative decline in usage. The absolute value of such cash payments has been quite stable over the last 15 years and stands at less than 50% of all consumption. For regular payments, such as standing orders or periodic household bills, Payments UK data indicates that technological developments have reduced physical exchanges of money, with only 10% paid for with cash in 2014.¹
- 1.8 Payments UK also reported that for consumer and business payments combined, non-cash payments overtook cash payments in July last year; it is expected that in 2016, the total volume of non-cash payments by consumers alone will exceed the volume of cash payments for the first time.²
- 1.9 Finally, the British Retail Consortium, in its Annual Payments Survey, noted that although cash “remains the dominant method of payment”, the 53% of transactions made in cash has declined by 3% over the last year and 10% over the last 5 years.³
- 1.10 Although it is widely acknowledged that cash is still in demand, these statistics show that relative to other payment methods, the use of cash has declined, and they appear to present a significant trend. As a result, HMRC see this as the right time to start exploring what this trend means for tax compliance, particularly in relation to the hidden economy and evasion. This call for evidence sets out some specific questions, however HMRC would welcome any additional evidence that respondents might hold about the role of cash in relation to tax compliance.

¹ <http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2015/q301.pdf>

² <http://www.paymentsuk.org.uk/news-events/news/uk-set-make-120-million-payments-day-2024>

³ http://www.brc.org.uk/brc_news_detail.asp?id=2636

2. What do changing trends in payment methods mean for tax compliance?

- 2.1 Cash poses some compliance challenges for HMRC. It can facilitate evasion by making under declaration of income and “off book” transactions easier. Where a business handles large amounts of cash, and particularly where it does not declare cash income, it may be more likely to make payments (for example wages and expenses) from cash takings before recording them. Cash has been used in the hidden economy because it allows people and businesses to trade in a way that is more difficult to trace, and that leaves a smaller digital footprint than electronic transactions. In comparison to electronic alternatives, cash does also have some advantages for compliance work.
- 2.2 As such, any continued decline in the use of cash will have an impact on the opportunity for deliberate non-compliance, and consequentially on HMRC's compliance work. For instance, if businesses make increasing proportions of their sales through credit and debit cards or mobile payment methods, these are more likely to be visible as HMRC receives data on the total values of these transactions through use of its data gathering powers. Bulk data gathered using these powers has proved to be highly effective at helping to target compliance interventions. HMRC has used this data to identify businesses that are not declaring all of their electronic sales, and also those who are declaring very little other than their electronic sales, which can be a sign that cash trading is not being fully reported. Through better targeting, compliant businesses are less likely to be unnecessarily contacted.
- 2.3 The first set of questions explores what a continued trend away from cash might mean for tax compliance.

Question 1: What does the relative decline in cash usage mean for tax non-compliance in the future?

- 2.4 Whilst there are numerous legitimate and popular uses for cash, the Bank of England estimates that no more than 50% of its notes in circulation (in total over £60bn) are likely to be held within the domestic, visible economy⁴. However, the Bank point out that this is inherently difficult to determine, and so not a precise estimate. It is likely that some of the remaining funds are held overseas (for example by tourists or in bureaux de change), whilst some is also likely to be held within the ‘shadow’ economy⁵. HMRC would like to gather further evidence around the uses of cash which may be hidden from the authorities.

Question 2: What evidence is available about the use of cash to conceal transactions within the hidden economy?

⁴ <http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2015/q301.pdf>

⁵ The Bank's definition of the shadow economy includes all illegal activities as well as any legitimate activities that are unlawfully concealed from the authorities, and so in HMRC's terminology will include both the hidden economy and evasion.

and

Question 3: To what extent does cash facilitate tax non-compliance?

2.5 Undoubtedly, cash is still a popular payment method for many individuals and businesses and is still the first choice for a variety of purposes. Payments UK estimate that 1.6 million people rely on cash for all their day-to-day transactions. The Bank has suggested the following six indicators as potentially impacting on future trends of cash usage:

- the public's attitude
- socio-economic and geopolitical developments
- government intervention
- retailer and commercial bank preferences
- alternative ways to pay and
- alternative currencies.

Question 4: What evidence is there that the relative trend away from cash to other payment methods will or will not continue?

2.6 The move away from cash to date appears to have been driven by widespread use of debit and credit cards, as well as new innovative technologies such as payment via mobile phones, contactless and digital wallets and there is potential for further disruptive technologies to change the payments landscape.

Question 5: Considering the rapidly changing payment landscape, what challenges and opportunities does further innovation raise for:

5a: HMRC's compliance activities?

5b: HMRC's customers?

2.7 Finally, there are some overlaps between non-compliance with tax and wider forms of non-compliance, such as money laundering (where criminals and their associates disguise the proceeds of crime, by making them appear to be from a legitimate source). HMRC plays an important part in tackling money laundering, by disrupting the supply of funds used for tax and other crimes. Technological advances are resulting in new money laundering techniques, however a recent Europol report suggests that cash remains an important tool, used for example to break digital audit trails.⁶

Question 6: What do changes in the use of cash mean for money laundering?

⁶ <https://www.europol.europa.eu/content/why-cash-still-king-strategic-report-use-cash-criminal-groups-facilitator-money-laundering>

3. Summary of Call for evidence Questions

Question 1: What does the relative decline in cash usage mean for tax non-compliance in the future?

Question 2: What evidence is available about the use of cash to conceal transactions within the hidden economy?

Question 3: To what extent does cash facilitate tax non-compliance?

Question 4: What evidence is there that the relative trend away from cash to other payment methods will or will not continue?

Question 5: Considering the rapidly changing payment landscape, what challenges and opportunities does further innovation raise for:

5a: HMRC's compliance activities?

5b: HMRC's customers?

Question 6: What do changes in the use of cash mean for money laundering?

4. Responding to this call for evidence

How to respond

A summary of the questions in this consultation is included at chapter 3.

Responses should be sent by 27th January 2016, by e-mail to cash.callforevidence@hmrc.gsi.gov.uk

or by post to:

Victoria Hermon
HMRC
Room G72
100 Parliament Street
London
SW1A 2BQ.

Paper copies of this document or copies in Welsh and alternative formats (large print, audio and Braille) may be obtained free of charge from the above address. This document can also be accessed from [HMRC's GOV.UK pages](#). All responses will be acknowledged, but it will not be possible to give substantive replies to individual contributions.

When responding please say if you are a business, individual or representative body. In the case of representative bodies please provide information on the number and nature of people you represent.

Confidentiality

Information provided in response to this call for evidence, including personal information, may be published or disclosed in accordance with the access to information regimes. These are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004.

If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals with, amongst other things, obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on HM Revenue and Customs (HMRC).

HMRC will process your personal data in accordance with the DPA and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties.

Consultation Principles

This call for evidence is being run in accordance with the government's consultation principles.

The government's consultation principles state that 'timeframes for consultation should be proportionate and realistic'. This Call for Evidence will run for nine weeks, which should be sufficient time for stakeholders to consider and respond, given the likely audience. The government considers that this is an appropriate amount of time to review the report and the questions raised, and contribute to this evidence-gathering exercise. If you have any comments or complaints about the consultation process please contact:

John Pay, Consultation Coordinator, Budget Team, HM Revenue & Customs, 100 Parliament Street, London, SW1A 2BQ.

Email: hmrc-consultation.co-ordinator@hmrc.gsi.gov.uk

Please do not send responses to the call for evidence to this address.