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# The Hidden Economy in Great Britain

## Final report

HM Revenue and Customs Research Report 478

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# Glossary

## **Buyers from the Hidden Economy**

Individuals who reported that they had bought goods or services, either for themselves or for their businesses, where they believed the person they were paying was not registered with HMRC for appropriate tax regimes. This is an opinion of the respondent.

## **Ghost**

Individuals in the Hidden Economy who reported that they have not declared any of their sources of income (which may or may not be taxable) to HMRC.

## **Hidden Economy**

Hidden Economy activities are whole sources of income (which may or may not be taxable) that have not been declared to HMRC for tax purposes. This is different to tax evasion, in which individuals intentionally under-declare their income for tax purposes, but the source of the income is known to HMRC.

This research covered three Hidden Economy behavioural types:

- Ghosts
- Moonlighters
- VAT non-registration

This research does not cover all taxable activities that make up the UK's 'hidden economy tax gap' as estimated by HMRC annually. This research covers what is assumed to be non-taxable, as well as taxable activity.

## **Hidden Economy income**

Income generated from activities, which may or may not be taxable, but has not been declared to HMRC for tax purposes.

## **High income**

Individuals within the Hidden Economy that generated a total Hidden Economy income (from all Hidden Economy activities) above £5,000 per annum.

## **Low income**

Individuals within the Hidden Economy that generated a total Hidden Economy income (from all Hidden Economy activities) below £500 per annum (but greater than zero).

## **Medium income**

Individuals within the Hidden Economy that generated a total Hidden Economy income (from all Hidden Economy activities) between £500 and £5,000 per annum.

## **Moonlighter**

Individuals who reported that they pay tax on one or more sources of income (through PAYE or self-assessment), but fail to declare at least one other source of income (which may or may not be taxable) to HMRC.

The definition of Moonlighter used in this research is different from that in calculating the 'hidden economy tax gap'. The latter only

	includes individuals with undeclared sources of income but known to HMRC through PAYE.
<b>Non-taxable income</b>	A total personal income (from all sources before any deductions for tax or National Insurance) that is assumed to be below the personal allowance for income tax purposes.
<b>Personal allowance</b>	Personal allowance is the amount of income individuals can earn before they are liable to income tax. The personal allowance amount varied over the course of fieldwork, from £10,000 to £11,000, and we have applied the tax threshold at the time in all analysis.
<b>Rental activity</b>	Unlike other types of supplementary activities covered by this research, money generated from rental activity is classed as 'unearned income' by HMRC. In this research, rental activity covers renting out rooms, properties, outbuildings, vehicles, equipment, driveways, or land for money.
<b>Supplementary activity</b>	Income generated from activities other than employment or self-employment by the respondent. Supplementary activities covered in this research include buying and selling of goods to make money, creating and selling goods to make money, carrying out any service or work for money, and rental activity as outlined above. This research does not cover all taxable activities that make up the UK's 'hidden economy tax gap' as estimated by HMRC annually.
<b>Tax aware</b>	Individuals within the Hidden Economy who provided a reason for not declaring their income to HMRC that indicated they were aware of the requirement to declare taxable income to HMRC for tax and National Insurance purposes.
<b>Tax unaware</b>	Individuals within the Hidden Economy who provided a reason for not declaring their income to HMRC that indicated they were unaware of the requirement to declare taxable income to HMRC for tax and National Insurance purposes.
<b>Taxable income</b>	Income that is assumed to be above the personal allowance, and liable to income tax.
<b>Unearned income</b>	Income generated from capital gains, investments, interests, rental activity, to name a few. Apart from rental activity, other sources of unearned income are not within the scope of this research.
<b>VAT non-registered</b>	Businesses that are assumed to have a turnover over the VAT threshold and are not registered with HMRC for VAT.

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# 1 Executive Summary

This report covers research conducted into Hidden Economy activities, which are defined as activities in which the entire source of income (not necessarily taxable) has not been declared to HMRC for tax purposes. This is different to tax evasion, in which individuals intentionally under-declare their income for tax purposes, but the source of the income is known to HMRC. The research provided detailed quantitative insights, including:

- Demographics of those in the Hidden Economy
- What types of activities are being carried out in the Hidden Economy
- How much is earned from the Hidden Economy
- Why do people fail to declare their Hidden Economy income
- Who buys from the Hidden Economy

In this research, respondents were asked about all of their income generating activities. From their answers we established whether they had any involvement in any Hidden Economy activity. However, involvement in Hidden Economy activities does not necessarily mean that the individual has tax to pay or an obligation to register with HMRC, for example, most people have an allowance of tax-free income.

Individuals who did not make taxable income from their Hidden Economy activities were included within the scope of this research, as it is possible that they will have taxable income in future if these activities become more established. It is also important for HMRC to understand their attitudes and behaviours towards the Hidden Economy in order to design interventions to help them move into the formal economy if they do have tax obligations in the future.

## 1.1 Who is in the Hidden Economy

An estimated 4.9% of the British population was found to be involved in the Hidden Economy. These are individuals who have not declared their activity for tax purposes, but may or may not have taxable income from Hidden Economy activities.

Highest prevalence of Hidden Economy participation was found among those:

- **Aged 16-24 year olds:** 12%;
- **Living in larger households:** 8% of those in households with three or more adults;
- **In low income households:** 11% of those earning under £10,000 a year;
- **With a total personal income below the tax threshold:** 6% of those whose personal income was below the tax threshold;

An estimated 2.6% of the British population was operating in the Hidden Economy with a presumed taxable income, which suggests that at least part of the income from their Hidden Economy activities is assumed to be taxable and should have been declared to HMRC.

This research covered three key types of Hidden Economy behaviours:

- **Moonlighters**, whose Hidden Economy activity supplements declared activity (57% of the Hidden Economy population);
- **Ghosts**, who reported that they have not declared any of their sources of income (whether taxable or non-taxable) to HMRC (38%); and

- 
- **VAT non-registered**, businesses that are assumed to have a turnover over the VAT threshold and are not registered with HMRC for VAT<sup>1</sup> (5%).

## 1.2 What types of activities are being carried out in the Hidden Economy?

The research found that the majority of Hidden Economy activities were supplementary rather than more formal work types:

- **Employee** activities (reported by 21% of the Hidden Economy population);
- **Self-employed** activities (14%);
- **Supplementary** activities (64%) consisting of:
  - Buying and selling (30%);
  - Casual work (25%);
  - Making money from a hobby (14%);
  - Renting out assets (6%).
- **VAT non-registration** (5%). These are businesses who reported a turnover above the VAT threshold, but were not registered for VAT.

The most common industries reported for Hidden Economy activity were:

- **Service activities**, such as hair dressing, dog walking, laptop repairs, ironing services (13%);
- **Human health and social work** (12%);
- **Accommodation and food service** activities (10%); and
- **Wholesale and retail trade** (10%).

Over two thirds (70%) of Hidden Economy activities were viewed as temporary, with 63% having been taking place for less than 6 months.

Hidden Economy activity was likely to be:

- **Part-time**: 79% worked fewer than 16 hours per week in the Hidden Economy;
- Carried out **alone**: 64% did not employ anyone else to do the work;
- Taking **cash** as a form of payment: 56% paid for using cash;
- Done on a **weekly basis**: 38%.

## 1.3 How much is earned from the Hidden Economy?

Not everyone in the Hidden Economy was earning income from Hidden Economy activities. Around 1 in 25 (3.9%) of the adult British population earned some Hidden Economy income. Income varied within this group, with 44% of Hidden Economy participants earning less than £250 in the past 12 months.

At least 53% of those in the Hidden Economy had an overall income above the tax threshold, which means at least some of their Hidden Economy income is assumed to be taxable.

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<sup>1</sup> VAT registration thresholds changed during the fieldwork period. From 1 April 2014 until 31 March 2015 the threshold was at £81,000. From 1 April 2015 until 31 March 2016 it rose to £82,000. Finally, from 1 April 2016 until 31 March 2017 it was set at £83,000.

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## 1.4 Why do people fail to declare their Hidden Economy income?

From their responses, it was assumed that at least 14% of Hidden Economy participants did not have an obligation to declare their activity because they did not earn any income from the activity.

The most common reasons mentioned by Hidden Economy participants for not declaring their activity were:

- Income being irregular, temporary or one-off (45%)
- Not being successful or established enough (20%)
- Knew about their tax obligations, but thought they're below the tax threshold or did not earn enough (10%)
- Knew about their tax obligations, but it was a small amount so not worth it (8%)

The majority of Hidden Economy participants were aware that they should register for VAT if their business' turnover was above the VAT threshold<sup>2</sup> (71%). Most were also aware that taxable income from renting properties should be declared (78%). However, opinion was more evenly split on whether to declare:

- Buying and selling on internet market places (41% thought the income would need to be declared, 49% did not);
- Total personal income of under the personal allowance threshold (£10,000/£10,600/£11,000) (39% yes, 49% no); and
- Additional income if it took them into the next tax band (30% yes, 64% no).

There were also mixed opinions on whether it was acceptable to not declare:

- Small amounts of up to £500 (44%);
- Occasional income of any amount (43%);
- Income derived from buying and selling on the internet (40%);
- Income up to the personal allowance threshold (£10,000/£10,600/£11,000) (13%).

Over half (53%) of Hidden Economy participants thought it was very unlikely they would get caught, however, this is including those who currently have no obligation to declare their activity to HMRC. Of those that thought they could get caught, perceived consequences ranged from financial penalties (74%), to a prison term (38%) and losing their job (17%).

Hidden Economy employees were more likely than those who were self-employed to believe that they would get caught (86% of employees vs 68% of the self-employed), They were also more likely to think they would get a warning (35% of employees vs 19% of the self-employed), or lose their job (31% vs 13%).

Half of those operating in the Hidden Economy in the form of supplementary activities believed that they would not get caught if they paid tax on some sources of income, compared with one third (34%) of those engaged in more formal employment or self-employed work types.

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<sup>2</sup> This varied depending on the date of the interview.

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## 1.5 Who buys from the Hidden Economy?

It is important to note that this section reports on those who *believed* they had bought from the Hidden Economy, because they did not think the person they were paying was registered with HMRC for appropriate tax regimes. This is only an opinion of the respondent, as there is no way to ascertain if the person they bought from is operating in the Hidden Economy. It is likely that some of these transactions were in fact not part of the Hidden Economy, while it is also possible that other transactions were missed out because the buyer did not perceive that they were buying from the Hidden Economy. The figures presented here should therefore only be seen as a proxy of people's willingness to buy from the Hidden Economy.

Overall, 1 in 12 respondents (8%) reported that they had bought goods and services in the last 12 months, where they believed the income would not be declared to HMRC. Those involved in Hidden Economy activities themselves were more likely to do so (15% had bought from the Hidden Economy in the past year) than those who were not (7%).

Highest prevalence of buying from Hidden Economy was found among:

- **Men** (9%)
- **Those earning £50,000 or more** a year (12%)
- **Directors** of their own business (13%)
- Those **educated** to degree level or higher (11%)

The most common goods and services purchased were:

- **General household maintenance** (35%)
- **Direct sales of products** (18%)
- **Construction/labour** (17%)

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## 2 Introduction

### 2.1 Background

The Hidden Economy comprises whole sources of income that have not been declared to HMRC for tax purposes. This is different to tax evasion, in which individuals intentionally under-declare their income for tax purposes, but the source of the income is known to HMRC. HMRC analysis suggests the Hidden Economy accounts for a substantial component of the 'tax gap' in the UK. This is the difference between the amount of tax that should be collected by HMRC, against what is actually collected.

The Hidden Economy is important because of its impact on the formal economy. It increases the tax burden on the formal economy and distorts the perception of the economy and economic growth because activities in the Hidden Economy remain hidden.

For HMRC to reduce the size of the Hidden Economy, a clear understanding is needed of the nature of such activities and the characteristics of those involved. In this research, 'Hidden Economy' covers those who did not declare their activity to HMRC, regardless of whether they had any tax due. This is because individuals who are not currently making taxable income from their Hidden Economy activities may have taxable income in future if these activities become more established. It is therefore important for HMRC to understand their attitudes and behaviours towards the Hidden Economy in order to design early interventions and to educate the general public.

### 2.2 Research aims and objectives

The purpose of this study is to provide updated information about the nature and scale of the Hidden Economy in Great Britain, and the characteristics of those engaged in it. This is the first major attempt in Great Britain to provide detailed quantitative insights into the topic. The study covers information of most interest to HMRC including:

- Key characteristics of those within the Hidden Economy;
- Key business practices of those working within the Hidden Economy;
- The scale of the Hidden Economy and its distribution across key sub-groups;
- The monetary value of income that is not declared;
- Behavioural drivers of those choosing to participate in the Hidden Economy; and
- Those who might be buying from the Hidden Economy and what is purchased.

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## 3 Sampling and methodology

This quantitative research focused on individuals in Great Britain (excluding Northern Ireland). The data was collected through waves of telephone and face-to-face surveys. All respondents were asked a series of screening questions to determine whether they were involved in any Hidden Economy activities and to collect demographic information. Whether someone or someone's activity was considered part of the Hidden Economy was based on a complex set of criteria.

In this research, individuals who did not make taxable income from their Hidden Economy activities were included in the definition and analysis of the Hidden Economy group, as it is possible that they will have taxable income in future if these activities become more established. It is also important for HMRC to understand their attitudes and behaviours towards the Hidden Economy in order to design interventions to help them move into the formal economy.

### 3.1 Sample design

The research provides a representative sample of adults in Great Britain. Since the prevalence of Hidden Economy activity was expected to be relatively low, a large sample was needed to reach a large enough number of Hidden Economy respondents to support analysis of the Hidden Economy population.

There were two parts to this research, a face-to-face survey and a telephone survey. Typically, interviews around sensitive topics would be done face-to-face. However, this would have been difficult to do given the scale of this research. The telephone survey provided an efficient and cost effective way of screening a larger sample. To validate the telephone approach<sup>3</sup> in the context of Hidden Economy we combined the telephone survey with a separate face-to-face survey and compared the Hidden Economy prevalence and characteristics of the two samples in the first phase of the study.

The face-to-face survey was carried out by the Office for National Statistics (ONS) as part of the Opinions and Lifestyle (Omnibus) Survey over three waves of the survey<sup>4</sup>. Each wave had an issued sample of around 2,000 addresses selected from the Postcode Address File in Great Britain and one adult was selected in each responding household. Each wave had a target achieved sample of around 1,000 adults.

The telephone survey was carried out by NatCen Social Research. A representative sample of 78,194 Random Digit Dialling (RDD) landline and mobile numbers were issued in order to gain a target sample of around 7,000 adults.

In the face-to-face survey, questions about the Hidden Economy were asked as part of the ONS Omnibus Survey which covered a variety of subjects. The telephone survey, however, focused exclusively on the Hidden Economy subject area, and consisted of some introductory questions to check eligibility, the screening interview, and the extended questions for those involved in the Hidden Economy.

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<sup>3</sup>Geographical coverage reflected the Opinions and Lifestyle Survey, which covered Great Britain, but did not include Northern Ireland. We used this to validate our RDD telephone approach and, as we planned to compare the sample characteristics and prevalence for the two approaches to do this, we adopted the same geographical coverage.

<sup>4</sup> The three waves of Omnibus fieldwork took place in February 2015, November 2015 and January 2016.



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## 3.2 Scope and content of questionnaire

The questionnaire included a set of screening questions, completed by all respondents, designed to determine if respondents were involved in the Hidden Economy, and to collect basic demographic information about all economic activity and attitudes. Activities defined as Hidden Economy comprised of whole sources of income not declared to HMRC for tax purposes, and respondents were classed as being in the Hidden Economy if they had at least one such activity.

The screening questions asked respondents about their employment or self-employed activities, and any supplementary activities that they might have. Supplementary activities covered in this research included buying and selling to make money, doing a hobby but also to make money, casual work, and rental activities. Unearned income, such as capital gains and investment income were outside the scope of this research.

Those involved in Hidden Economy activities were asked more detailed questions about these activities. The extended questions collected further information about respondents and businesses involved in the Hidden Economy (including their reasons for not declaring this income or turnover, and the nature of the work and business practices involved). See Appendix A for further information about questionnaire content.

The subgroups captured in this research related to the Hidden Economy definition used by HMRC included:

- **Ghosts**, who have not declared any of their sources of income to HMRC;
- **Moonlighters**, whose Hidden Economy activity supplements declared activity; and
- **VAT non-registered**, businesses that are assumed to have a turnover over the VAT threshold and are not registered with HMRC for VAT.

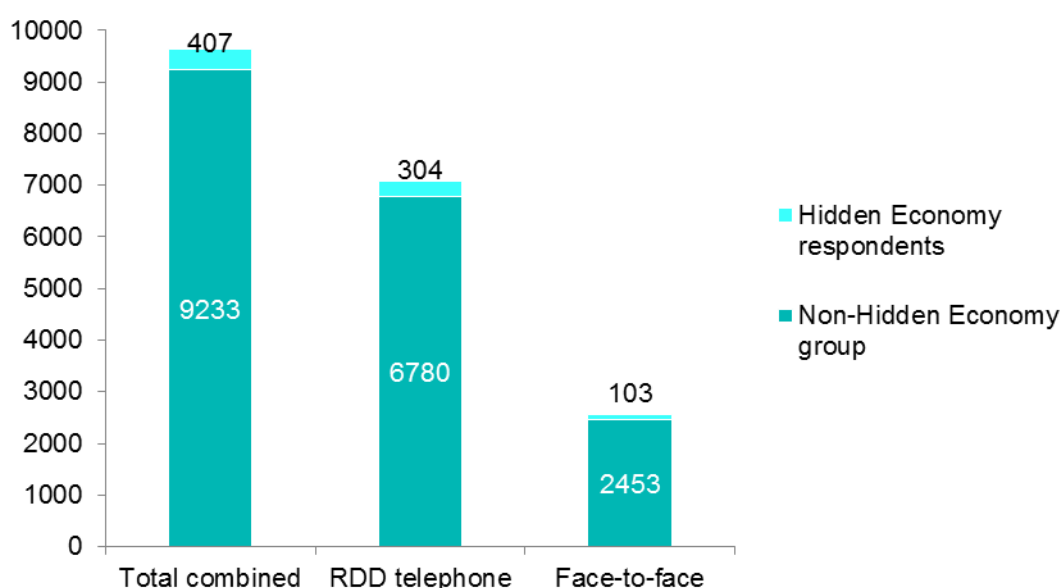
## 3.3 The responding sample

Figure 3.1 shows the total number of respondents, and the numbers achieved in the telephone and face-to-face approaches.

Responses to the screening questions were used to determine if respondents were involved in Hidden Economy activity ('Hidden Economy respondents') or not (the non-Hidden Economy group).

The characteristics of the responding face-to-face sample were compared with those of the telephone survey sample to test the RDD approach, which has never been used on such a large scale survey of this nature. The relatively high degree of consistency observed increased confidence that the sample was representative of the British population.

Figure 3.1 The responding sample



## 3.4 Weighting

Weighting has been used to account for different selection probabilities of members of landline, mobile RDD samples, and respondents from the ONS omnibus survey. The sample profile has also been compared with the most recent population estimates, and the whole sample has been calibrated to population estimates (age, sex, region) from January 2016. The effect of the weights was moderate.

## 3.5 Analysis of data from different phases

Fieldwork was carried out in two phases, consisting of an initial phase to test the RDD approach (phase 1), and a second phase with a larger sample to consolidate the findings (phase 2). In phase 1, the extended questions were only asked of those Hidden Economy respondents who reported making £500 or more in the past year from the Hidden Economy. In phase 2, the extended questions were asked of all who were involved in the Hidden Economy, so that the analysis reflects the Hidden Economy group as a whole. This report covers results from both phases of the research. However, due to the different routing approach into the Hidden Economy, only phase 2 data were used in the analysis of Hidden Economy business practices reported in Chapter 6 and the motivations, barriers, and attitudes of Hidden Economy participants reported in Chapter 7.

## 3.6 Reporting conventions and notes to tables

The following conventions apply to tables and commentary throughout this report.

- The majority of tables in the report relate to questions with mutually exclusive responses. In these tables the percentages will generally sum to 100, although some percentages may not sum to exactly 100 due to rounding. In addition, where the survey question allowed multiple responses (i.e. the respondent could choose a number of responses rather than just one), the percentages will not sum to 100.

- 
- Some respondents did not respond to all questions. As a result, the unweighted sample size for tables and figures may be smaller than the total number of interviews.
  - Analysis based on fewer than 50 cases are not considered robust. In the accompanying tables, results based on fewer than 50 cases are shown in square brackets ([ ]), while those based on fewer than 30 cases are replaced with a hyphen ('-').
  - Cell frequencies of fewer than 5 cases, are replaced with a hyphen ('-').
  - This report only presents findings that are statistically significant. Where comparative statements have been made in the text, the differences between groups have been checked with a significance test at the 95% confidence level. This means we are 95% confident that the statements we are making are true.

## 4 The scale of the Hidden Economy

This chapter looks at the overall scale of the Hidden Economy and the distribution of Hidden Economy participants across different subgroups in the population.

The prevalence rates presented in this chapter include individuals who were engaging in the Hidden Economy because they did not declare their activity for tax purposes, but might not have taxable income from their Hidden Economy activities.

### 4.1 Summary of prevalence rates

#### 4.1.1 Prevalence of the Hidden Economy

Table 4.1 below shows the estimated prevalence of the Hidden Economy in the adult Great Britain population. Prevalence rate is shown separately for the whole Hidden Economy group, for different levels of Hidden Economy income, and for those with a taxable total personal income.

Around 1 in 20 (4.9%) of the population were found to be involved in the Hidden Economy.<sup>5</sup>

	Sample mean	Confidence Intervals	
		Lower	Upper
	%	%	%
<b>Overall</b>			
Involved in the Hidden Economy	4.9	4.4	5.5
Possibly involved in the Hidden Economy	0.6	0.5	0.9
<b>Hidden Economy with:</b>			
Any income from Hidden Economy activities	3.9	3.4	4.4
High income from Hidden Economy activities (£5,000 or more)	0.7	0.5	0.9
Total personal income above income tax threshold	2.6	2.3	3.0
<i>Base: All respondents</i>			9,640

A further 0.6% were defined as possibly involved in the Hidden Economy. This group had at least one activity that was likely to be in the Hidden Economy, but had not provided all the information needed for us to confirm this. These individuals and activities may be involved in the Hidden Economy.<sup>6</sup>

<sup>5</sup> This may be a conservative estimate of prevalence as some people involved in Hidden Economy may be reluctant to provide information about their income generating activities so do not take part in the survey, or choose not to answer certain questions. However, a lot of methodological steps have been taken to mitigate these risks (see Chapter 3); the rate of refusal was also found to be low.

<sup>6</sup> The proportion of possible Hidden Economy was relatively low which helps validate the sample, and provides reassurance that respondents were not reluctant to provide information on their activities and income.

We asked respondents about the income or profit from each activity to ascertain their Hidden Economy income in the past year. Overall, an estimated 3.9% of the population earned some income from their Hidden Economy activity.

An estimated 0.7% of the population earned £5,000 or more from their Hidden Economy activities in the last 12 months.

Those involved in the Hidden Economy may also have additional sources of income, such as those from legitimate work, benefits, pensions, or income from savings. Total personal income reported by Hidden Economy participants may therefore include income from Hidden Economy and non-Hidden Economy sources. Around 1 in 40 (2.6%) were in the Hidden Economy with total personal income above the income tax threshold, meaning that at least part of the income they make from Hidden Economy activities is assumed to be taxable.

### 4.1.2 Buying from the Hidden Economy

We asked all respondents if they had purchased goods or services where they thought these may not be declared to HMRC.<sup>7</sup> Around 1 in 12 (7.6%) believed they had bought from individuals or businesses that may be in the Hidden Economy in the past year (Table 4.2).

Table 4.2 Prevalence of buying from the Hidden Economy			
		Confidence Intervals	
	Sample mean	Lower	Upper
	%	%	%
Buyers of the Hidden Economy	7.6	7.0	8.2
<i>Base: All respondents</i>			9368

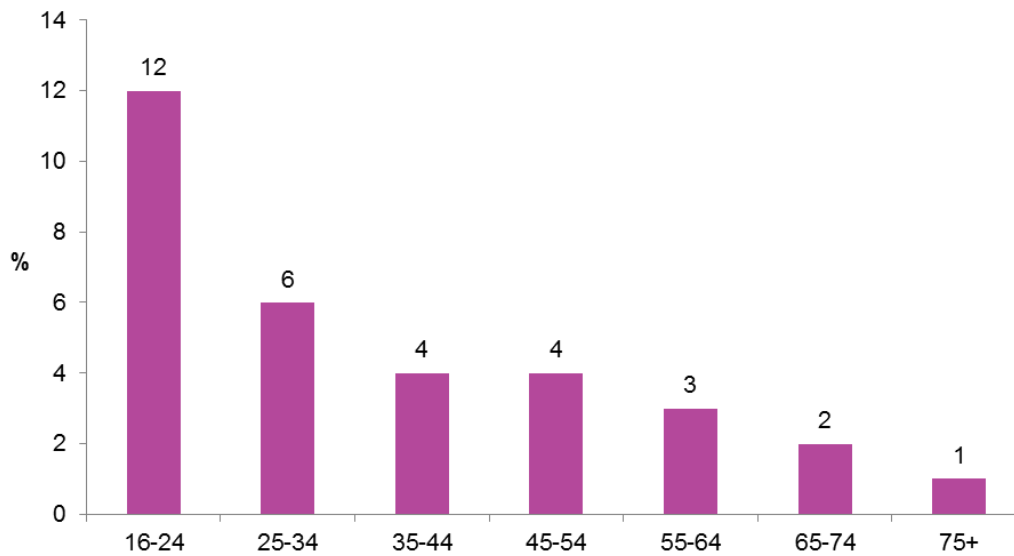
## 4.2 Prevalence of the Hidden Economy by demographic features

### 4.2.1 Age

Prevalence of involvement in the Hidden Economy decreased with age, from 12% among adults aged 16-24 to 1% among adults aged 75 and over (Figure 4.1).

<sup>7</sup> The questions provide a broad measure of buying from Hidden Economy. Although it was not possible to verify that the respondents were buying from the Hidden Economy, it does provide a measure of behaviour and indicate the willingness of respondents to actually buy something even though they think the purchases may not be declared to HMRC.

Figure 4.1 Prevalence of Hidden Economy, by age

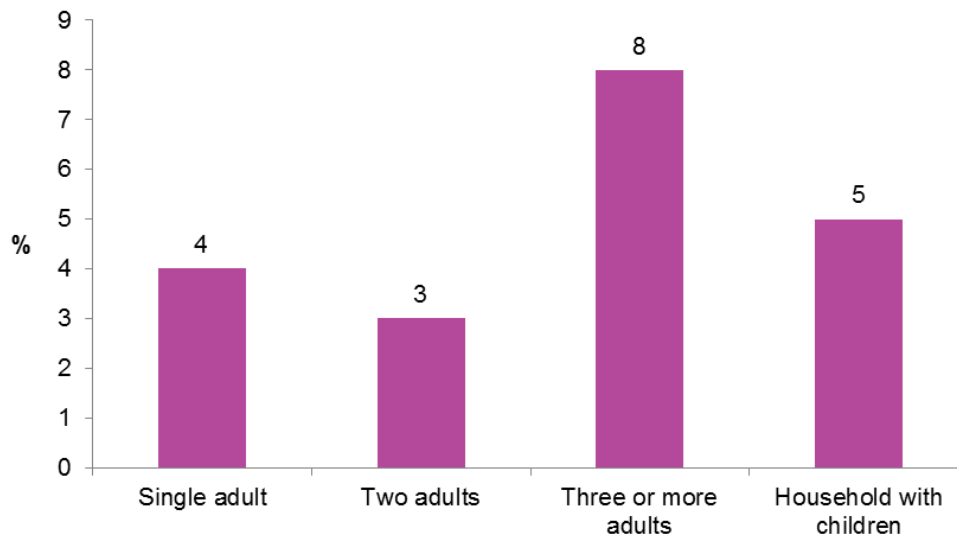


Base: All respondents (9,457)

### 4.2.2 Household composition

Households were divided into four broad groups based on the number of adults and children living there. Involvement in the Hidden Economy was most likely to be found among those living in larger, adult only households. Within the general population, 8% of adults in households with three or more adults were involved in the Hidden Economy (Figure 4.2).

Figure 4.2 Prevalence of Hidden Economy, by household composition

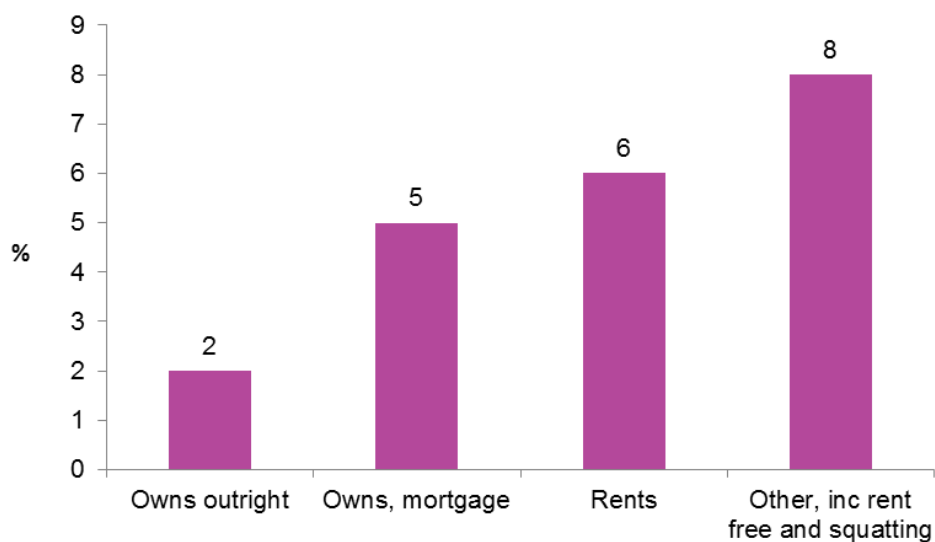


Base: All respondents (9,525)

### 4.2.3 Tenure

Prevalence of the Hidden Economy was highest among those living rent free, including squatting (8%, classed as 'other tenure'), and lowest among those who owned their properties outright (2%). Similar levels of Hidden Economy participation were observed among renters (6%) and those owning their properties with the help of a mortgage or loan (5%) (Figure 4.3).

Figure 4.3 Prevalence of Hidden Economy, by tenure

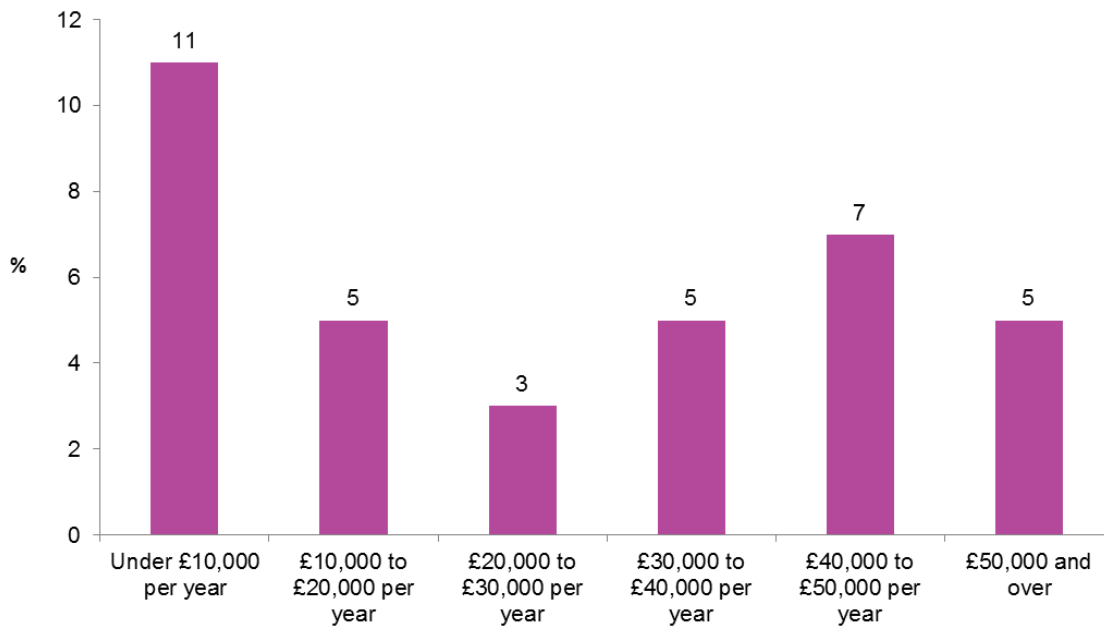


Base: All respondents (9,490)

### 4.2.4 Household income

Prevalence of Hidden Economy participation in the general population varied by levels of annual household income. It was highest among those earning under £10,000 per year (11%) (Figure 4.4). This group was assumed to have no taxable income, and hence, not obliged to declare their activity.

**Figure 4.4** Prevalence of Hidden Economy, by household income

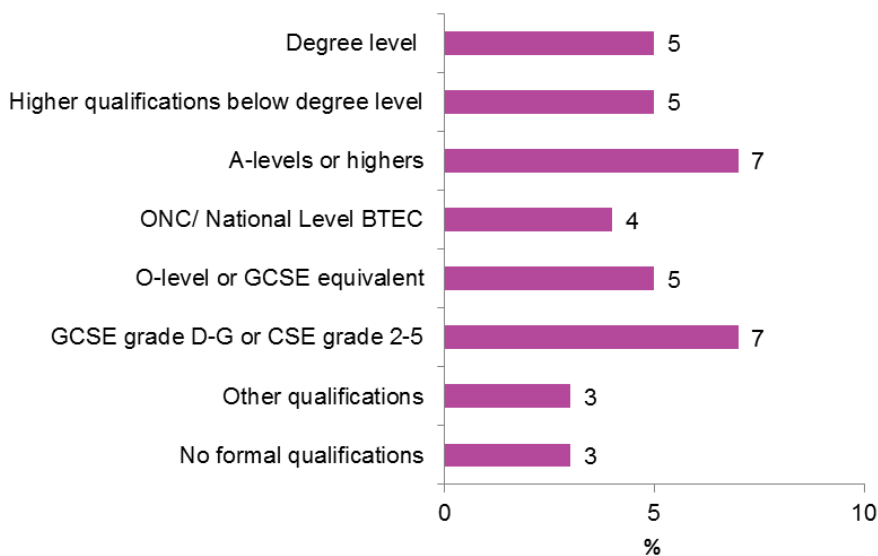


Base: All RDD respondents (4,685)

### 4.2.5 Level of education

We asked all respondents about their educational qualifications. The highest rate of Hidden Economy participation was found among those educated to A-levels or higher and those with GCSE grade D-G (both 7%), and lowest among those with no formal qualifications or with other qualifications (both 3%) (Figure 4.5).

**Figure 4.5** Prevalence of Hidden Economy, by highest educational qualification



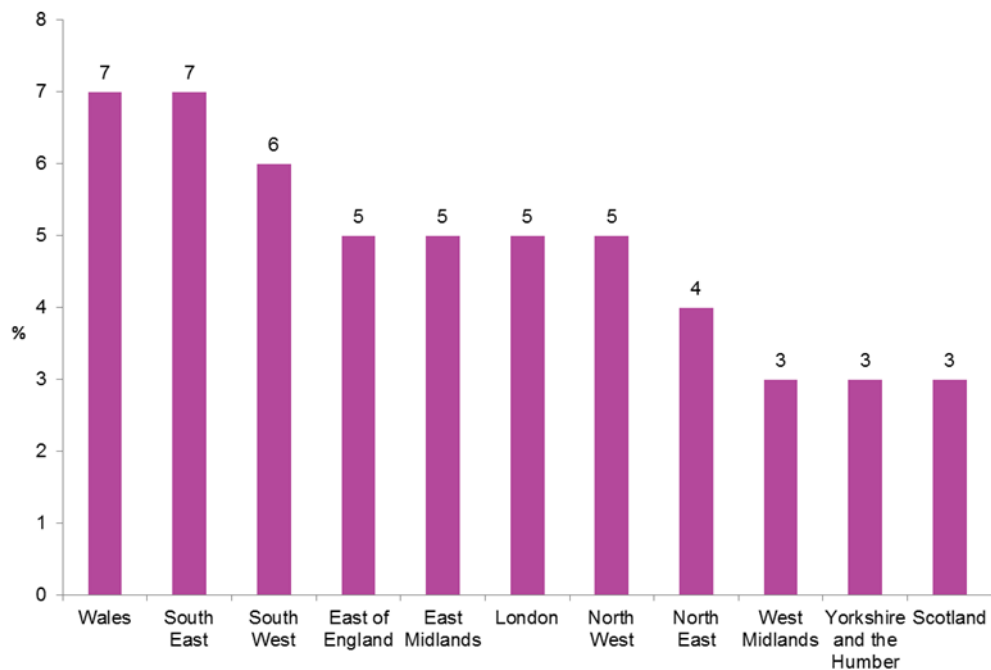
Base: All respondents (9,452)



## 4.2.6 Geographical region

There was significant variation in the prevalence of Hidden Economy participation across different geographical regions, with the highest prevalence found in Wales and the South East (both 7%), and the lowest found in Scotland and Yorkshire and the Humber (both 3%) (Figure 4.6). Northern Ireland was not covered in this research.

Figure 4.6 Prevalence of Hidden Economy, by region



Base: All respondents with valid region (9,532)

# 5 Characteristics of the Hidden Economy group

In this chapter, we look at the proportion of Hidden Economy respondents with different behaviour and work types, and the proportion with different levels of Hidden Economy income and taxable income.

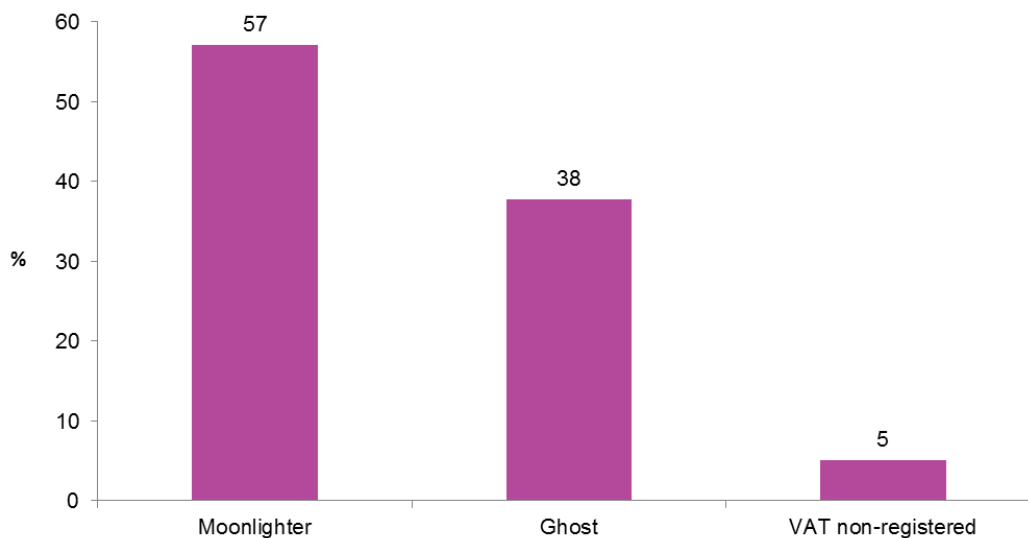
## 5.1 Hidden Economy behaviour type

There are three recognised Hidden Economy behaviour categories: Ghosts, Moonlighters, and VAT non-registered. Figure 5.1 shows the proportion of Hidden Economy respondents in different Hidden Economy behaviour groups.

Moonlighters were the most common behaviour type, accounting for 57% of the Hidden Economy group. These respondents reported that they pay tax on at least one source of income but had additional activity that are not declared to HMRC. Ghosts, who reported that they have not declared any of their sources of income to HMRC, made up 38% of the Hidden Economy group.

Around 5% of Hidden Economy respondents reported that they had a business with turnover of more than the VAT threshold, but had not registered it for VAT – the VAT threshold was at £81,000 to £83,000 depending on the timing of the interview.<sup>8</sup>

Figure 5.1 Proportion of different behaviour types in the Hidden Economy



Base: All Hidden Economy respondents (407)

## 5.2 Hidden Economy work type

In this research, respondents were asked to report all of their income generating activities. Figure 5.2 shows the proportion of different work types reported by participants in the Hidden Economy. These included:

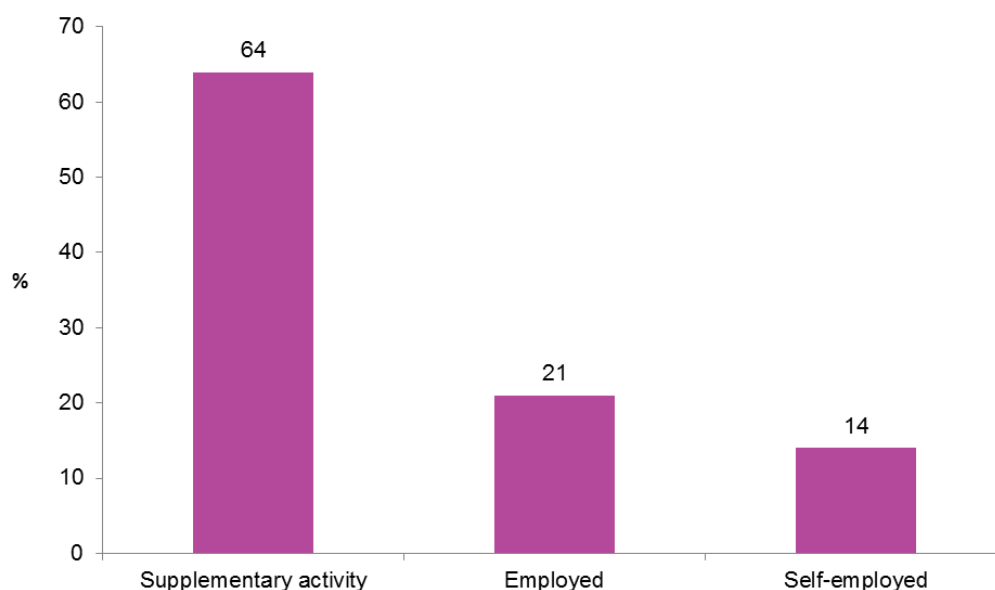
<sup>8</sup> The obligation to register for VAT is not as simple as having a turnover that is over the threshold, as some businesses can have exemptions.

- **Employee** activities, where someone reported that they had not declared their income from the work they carried out as an employee of a business or company;
- **Self-employed** activities, where someone reported that they had not declared their income from the work they carried out as a self-employed person or a director of their own company;
- **Supplementary** activities, where someone reported that they had not declared their income from the additional work they carried out that is not considered employment or self-employment.

The most common work type among Hidden Economy activities was supplementary activity, reported by almost two thirds (64%) of Hidden Economy participants. Supplementary activity in this research included buying and selling to make money (reported by 30% of Hidden Economy participants), casual work (25%), making money from a hobby (14%), and rental activities (6%) (Appendix table 5.1).<sup>9</sup>

One third of Hidden Economy participants reported having more formal work types: 21% as an employee, and 14% as self-employed.

**Figure 5.2** Proportion of different work types in the Hidden Economy



Base: All Hidden Economy respondents, excluding VAT non-registration (379)

### 5.3 Number of Hidden Economy activities

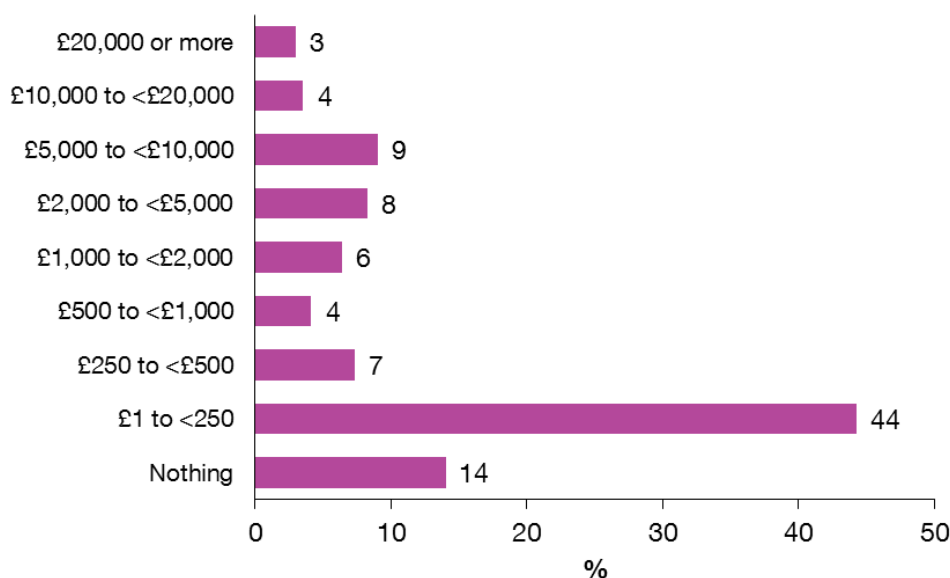
The majority (86%) of those involved in the Hidden Economy reported having only one Hidden Economy activity. Around one in ten (11%) reported having two Hidden Economy activities, and 3% reported having three or more Hidden Economy activities (Appendix Table 5.2).

<sup>9</sup> Note that percentages do not add up to 100% as those involved in the Hidden Economy could have more than one type of activity.

## 5.4 Income earned from Hidden Economy activities

Reported income earned from Hidden Economy activities in the past 12 months varied from nothing to £90,000. Overall, the level of income earned from Hidden Economy activities was low, with 44% of Hidden Economy participants reporting an annual HE income of under £250, and 14% reporting no income at all. Only around one in six Hidden Economy participants (16%) reported earning a higher income of £5,000 or more from their Hidden Economy activities in the past 12 months. Figure 5.3 shows the income distribution of Hidden Economy participants, however, not all of this income were assumed to be taxable.

Figure 5.3 Proportion of participants in each Hidden Economy income band



Base: Hidden Economy respondents<sup>10</sup> excluding VAT non-registered (364)

Those with a self-employed activity were also asked about the turnover of their business in the past 12 months. Among those with a self-employed Hidden Economy activity, not including VAT non-registered, turnover ranged from zero to £45,000. It was not possible to look at turnover among the VAT non-registered group due to the small base size, but turnover for this group was, by definition, in excess of £81,000 to £83,000 depending on the timing of the interview.

### 5.4.1 Total personal income among Hidden Economy participants

The personal allowance is the amount of income an individual can earn before becoming liable to income tax.<sup>11</sup> Individuals may have more than one source of income, and if their total personal income from all sources takes them above the personal allowance, that part of their income that

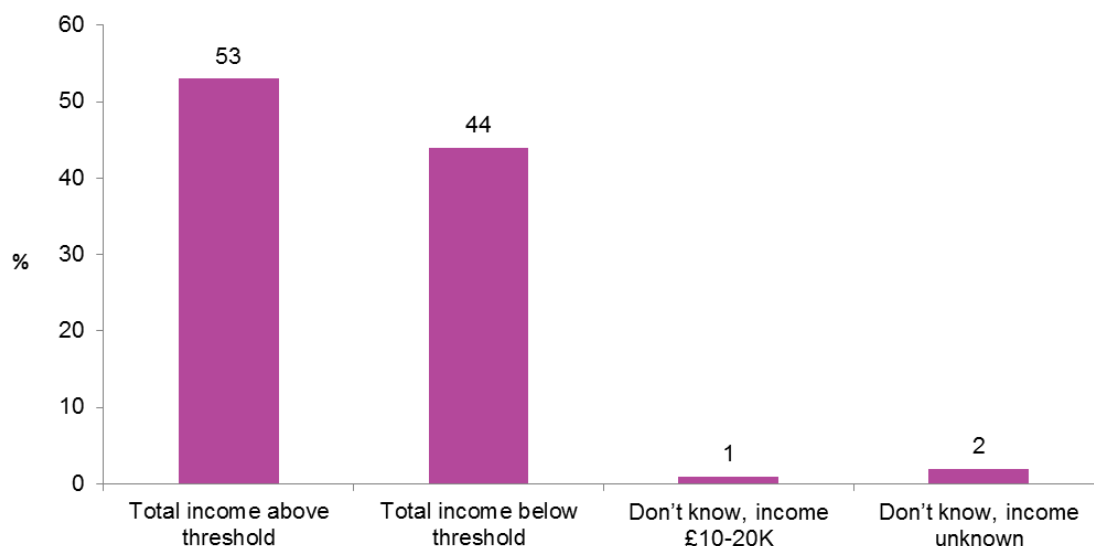
<sup>10</sup> For buying and selling, hobby, and rental activities, Hidden Economy income represents profit from the Hidden Economy activity rather than income, so respondents who reported zero income may be active but not making a profit at the time of interview. They may also go on to earn more from their Hidden Economy activity in future.

<sup>11</sup> GOV.UK, <https://www.gov.uk/income-tax-rates/current-rates-and-allowances>, Accessed 27<sup>th</sup> March 2017

exceeds the allowance will be liable to income tax.<sup>12</sup> Over the course of the fieldwork, the standard personal allowance increased from £10,000 to £10,600 up to £11,000.<sup>13</sup>

Within the Hidden Economy group, over half (53%) of participants reported a total personal income above the personal allowance (Figure 5.4).<sup>14</sup> This means that at least part of the income they earned from their Hidden Economy activities is assumed to be liable to income tax.

**Figure 5.4** Proportion of Hidden Economy participants with assumed total income above the personal allowance



Base: All Hidden Economy respondents (407)

Those active in the Hidden Economy may have additional sources of income that contribute to their total personal income, including non-Hidden Economy work, pensions, or benefits. Their total personal income may therefore be above the income tax threshold even if their Hidden Economy income alone is not.

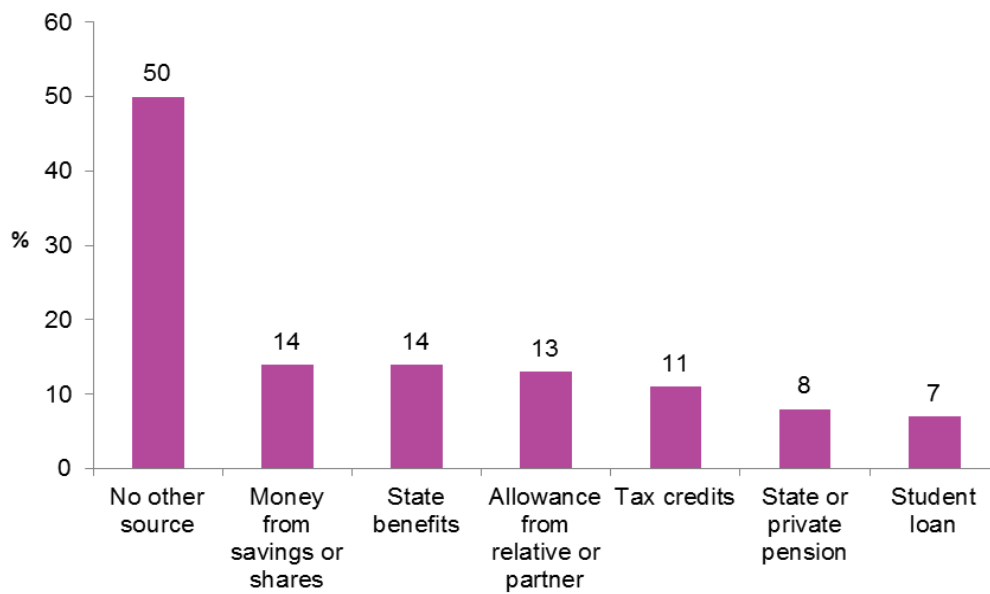
Half of the Hidden Economy participants (50%) reported having no other source of income. The rest reported income from savings (14%), state benefits (14%), allowance from a relative or partner (13%), tax credits (11%), state or private pensions (8%), and student loans (7%) (Figure 5.5). Some respondents had more than one of these other sources of income alongside their Hidden Economy and non-Hidden Economy activities.

<sup>12</sup> Subject to entitlement to any other allowances.

<sup>13</sup> Personal allowance from 6 April 2014 to 5 April 2015 was £10,000; from 6 April 2015 to 5 April 2016 £10,600 and from 6 April 2016 to 5 April 2017 £11,000.

<sup>14</sup> Those with an unknown income in the £10-20K band are more likely to be above the individual personal allowance for income tax as this was at the lower end of this band throughout the fieldwork period.

Figure 5.5 Other sources of income reported by Hidden Economy participants



Base: Hidden Economy respondents, phase 2 only: 258

Note: Respondents were able to give more than one response to this question and therefore the sum of the percentages may be greater than 100

## 6 Nature of Hidden Economy activity and business practices

This chapter explores the Hidden Economy activities in more detail, including the industries that Hidden Economy activities are most likely to be found in, working hours, clientele, advertising methods, and other business practices.

### 6.1 Industry

Employees, self-employed, and casual workers were asked about the type of work they or their businesses carried out. Figure 6.1 shows the top ten industrial sectors most commonly mentioned by Hidden Economy participants.

'Other services' was most common, mentioned by 13% of those involved in the Hidden Economy. This sector includes a diverse range of service activity roles, including hairdresser, tattoo artist, ironing service, computer repairs, dog walking, to name a few. Other commonly mentioned industrial sectors included human health and social work (12%), accommodation and food service activities (10%), and wholesale and retail trade (10%), with each of these accounting for at least one tenth of all Hidden Economy activities.<sup>15</sup>

Figure 6.1 Top 10 most common industrial sectors mentioned



Base: Hidden Economy activities – employee, self-employed, and casual work (222)

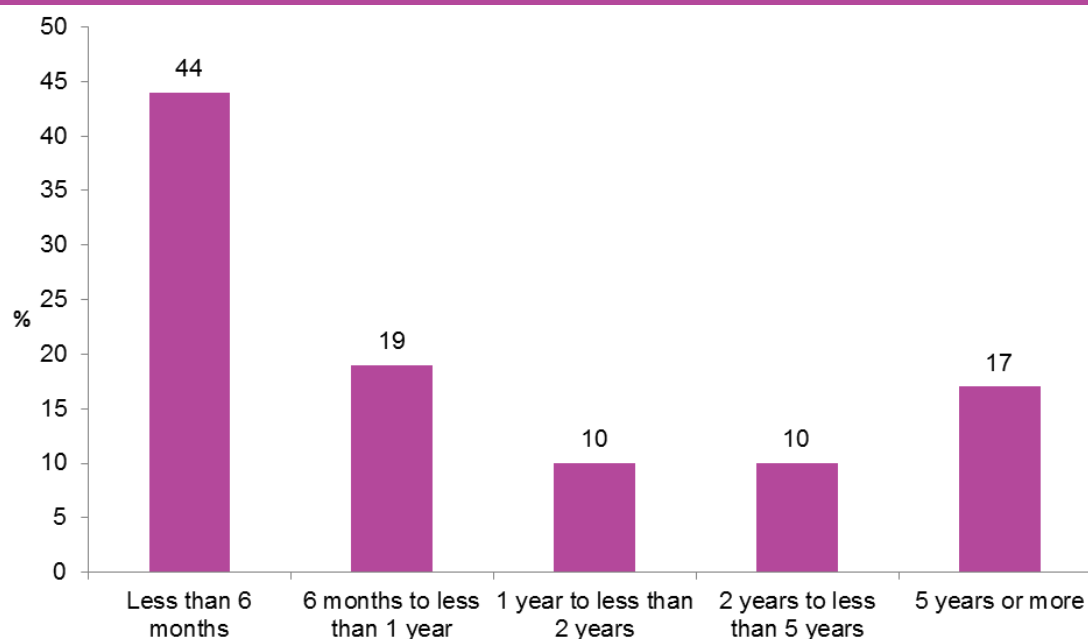
<sup>15</sup> For a full list of Industry codes please refer to the Standard Industrial Classification of Economic Activities (SIC) 2007, Companies House. Ref: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/455263/SIC\\_codes\\_V2.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/455263/SIC_codes_V2.pdf)

## 6.2 Duration and hours worked

The majority of Hidden Economy activities were seen as temporary (70%), and only 30% considered as permanent (Appendix Table 6.1).

Nearly half (48%) of the Hidden Economy activities were still on-going at the point of the interview. Involvement in specific activities tended to be short-term, with 63% taking place for less than a year and 10% having lasted for 1 to 2 years. A further 17% had been carried out for 5 years or longer (Figure 6.2).

Figure 6.2 How long the Hidden Economy participant is involved in the activity



Base: All Hidden Economy activities (338)

The regularity with which participants carried out their Hidden Economy activities varied, with 38% of activities done weekly and 41% done less than once every three months (Appendix Table 6.2).

The number of hours spent on each activity per week varied, but the majority (79%) said they typically spent less than 16 hours per week on their Hidden Economy activity in the past 12 months (Appendix Table 6.3).

Hidden Economy participants tended to work alone (64%). Those with employees were most likely small businesses with up to 10 employees (22%) or 10 or more employees (9%). Only 5% of Hidden Economy participants reported having 50 or more employees (3%) or not knowing the number, but that it was more than 50 (2%) (Appendix Table 6.4).

## 6.3 Methods of payment, records and receipts

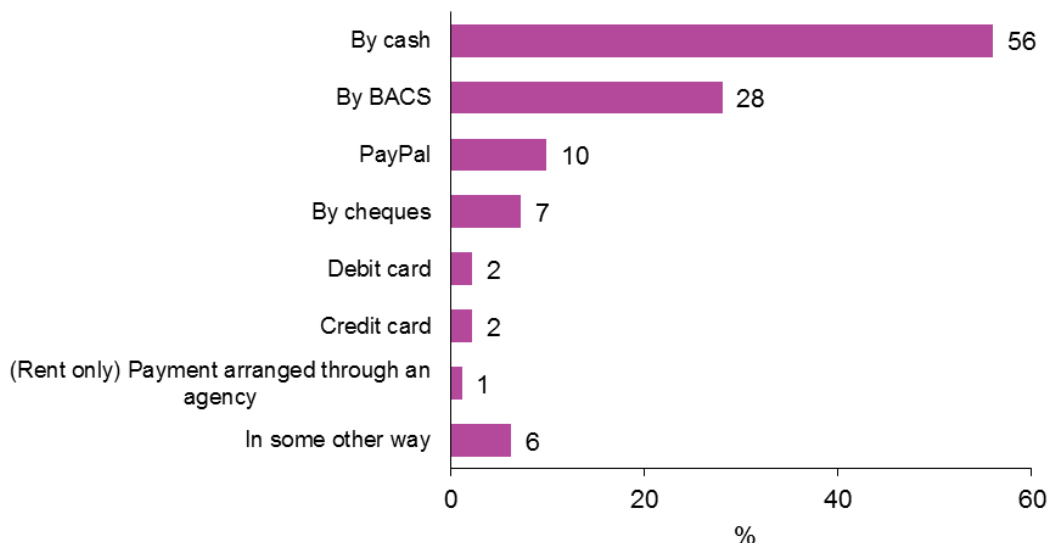
Hidden Economy participants were asked about the method of payment for each of their Hidden Economy activity. Cash was the most commonly mentioned method of payment for goods and services (56%), but many participants reported using multiple payment methods for their activity.



Comparison with recent research on the use of cash and electronic payment in the business population<sup>16</sup> found that 71% of small businesses offered cash as a payment option to customers.

Electronic payments were mentioned for almost half of all Hidden Economy activities: Bank Automated Clearing System (BACS) payments were used in 28% of all Hidden Economy activities, PayPal in 10%, and cheques in 7%. A smaller proportion of 2% mentioned debit and credit cards as methods of payment for clients. Other, less frequently reported payment methods, included payment in the form of non-monetary items (Figure 6.3).

Figure 6.3 Methods of payment used in Hidden Economy activities



Base: All Hidden Economy activities, phase 2 only (337)

Note: Respondents were able to give more than one response to this question and therefore the sum of the percentages may be greater than 100.

Nearly two thirds of Hidden Economy participants (61%) did not keep any records for the money they spent and made from their activity. A quarter (25%) kept electronic records, and a fifth (22%) kept paper records (Appendix Table 6.5). Nearly one in ten (9%) participants kept both electronic and paper records (Appendix Table 6.6).

The majority (81%) of those involved in Hidden Economy activities did not receive help with record keeping and tax affairs. Of those who did receive help with record keeping, it was most commonly in the form of paid assistance such as an accountant or bookkeeper (13%). Assistance from a friend or relative was also mentioned (3%) (Appendix Table 6.7).

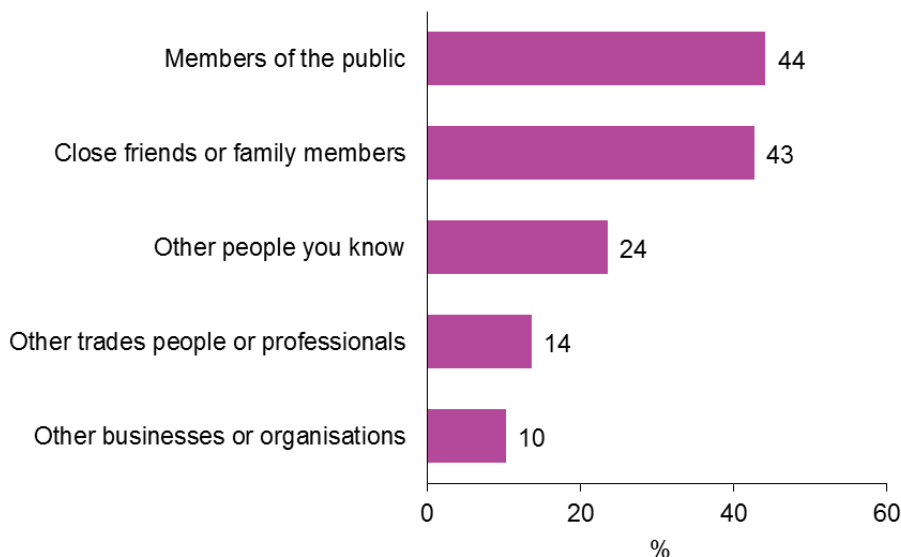
## 6.4 Clients and customers

Hidden Economy participants were asked about their clientele for each of their Hidden Economy activities. The most commonly mentioned client groups were members of the public (mentioned for 44% of Hidden Economy activities), close friends or family members (43%), or other people known to the participant (24%).

<sup>16</sup> Research commissioned by HMRC, conducted by Ipsos MORI on 'Uses of Cash and Electronic Payments' [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/557331/Uses\\_of\\_Cash\\_and\\_Electronic\\_Payment.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/557331/Uses_of_Cash_and_Electronic_Payment.pdf)

Hidden Economy participants also mentioned having customers or clients who were other trades people and professionals (14%) or other businesses and organisations (10%) (Figure 6.4).

Figure 6.4 Clients for Hidden Economy activities



Base: All Hidden Economy activities, phase 2 only (274)

Note: Respondents were able to give more than one response to this question and therefore the sum of the percentages may be greater than 100.

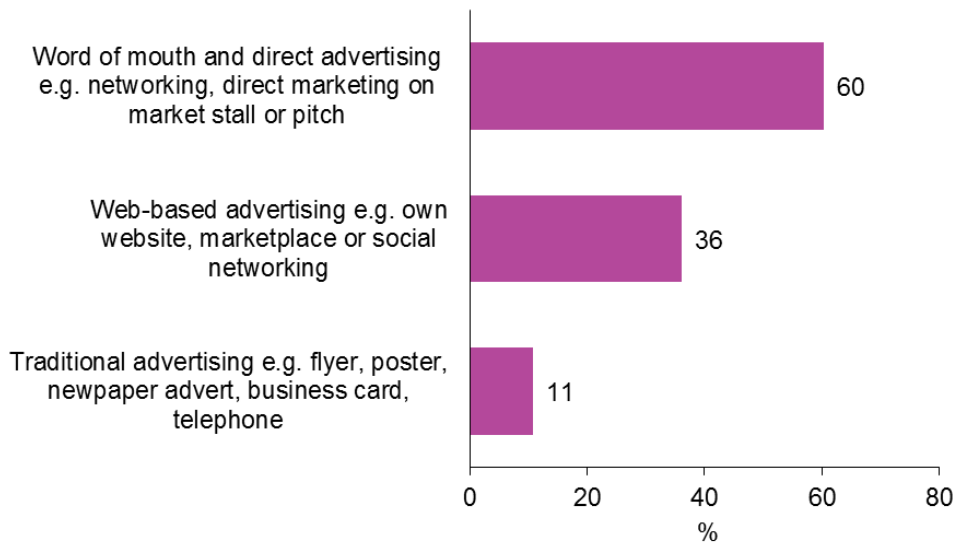
## 6.5 Advertising

Those involved in the Hidden Economy were asked about the form of advertising used for their Hidden Economy activities. The full list of responses given can be found in Appendix A. These responses were grouped into three broad types of advertising:

- **Direct advertising or word-of-mouth**, where goods or services would be advertised through networking, or directly on a market stall or pitch;
- **Web-based advertising** which takes place online through websites, or social media; and
- **Traditional advertising** through print media, such as posters, flyers, or through newspapers.

Direct advertising and word-of-mouth was the most common form of advertising, mentioned for 60% of Hidden Economy activities (Figure 6.5). Traditional forms of advertising, such as use of flyers, posters or newspaper adverts were less common, only mentioned for 11% of Hidden Economy activities.

Figure 6.5 Advertising method for Hidden Economy activities



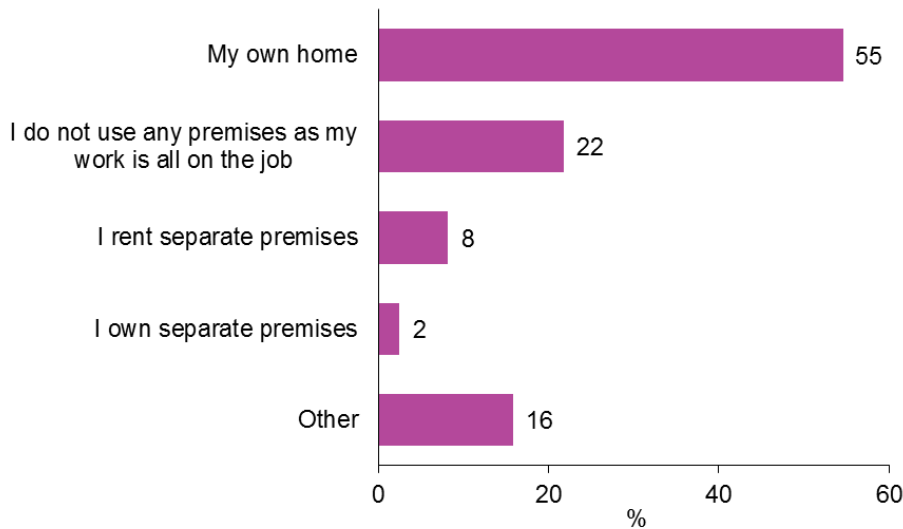
Base: All Hidden Economy activities, phase 2 only (248)

Note: Respondents were able to give more than one response to this question and therefore the sum of the percentages may be greater than 100.

## 6.6 Premises

Over half (55%) of the Hidden Economy activities were carried out in the participant's own home. Only 2% of Hidden Economy participants owned separate premises specifically for their Hidden Economy activity (Figure 6.6).

Figure 6.6 Premises used for Hidden Economy activities

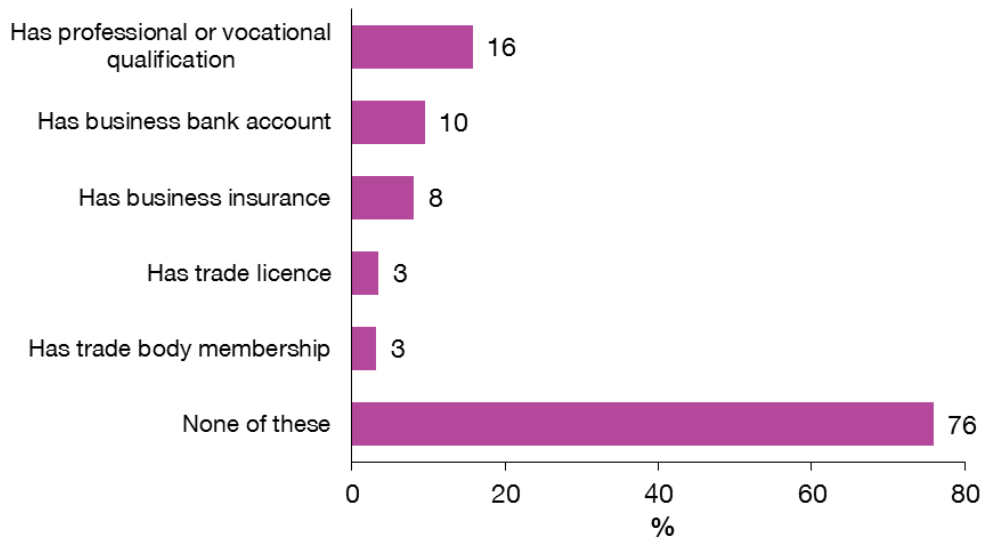


Base: All Hidden Economy activities, phase 2 only (262)

## 6.7 Involvement in regulatory activities

All Hidden Economy participants were asked about their involvement in regulatory activities. One in six (16%) reported having a professional or vocational qualification, 10% had a business bank account, and 8% had business insurance (Figure 6.7).

Figure 6.7 Involvement in regulatory activities



Base: All Hidden Economy activities, phase 2 only (266)

Note: Respondents were able to give more than one response to this question and therefore the sum of the percentages may be greater than 100.

# 7 Motivations, barriers and attitudes among Hidden Economy participants

This chapter explores the reasons given by Hidden Economy participants for operating in the Hidden Economy, potential barriers to entering the formal economy, and their knowledge and attitudes towards tax rules in general. The analyses reported here covers Hidden Economy participants with and without taxable income, hence, some of these participants had no obligation to register or declare their activity.

## 7.1 Reasons for not declaring income

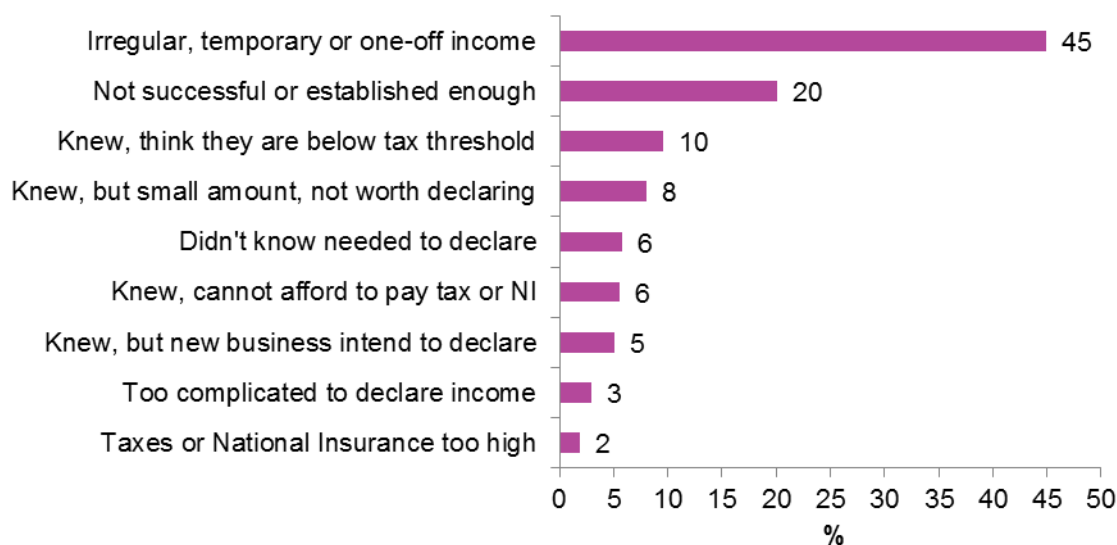
Hidden Economy participants were asked their reasons for not declaring their activities to HMRC (Figure 7.1). The most common reasons mentioned were:

- Having irregular, temporary or one-off work (45%)
- Not being successful or established enough (20%)
- Knew about tax liabilities in relation to the income, but thought they're below tax threshold or did not earn enough (10%)
- Knew about tax liabilities in relation to the income, but it was a small amount so not worth it (8%)

For those who were aware of the requirement to declare taxable activity, reasons varied but tended to reflect financial concerns, such as not earning enough, not being able to afford to pay tax or National Insurance.

Around 5% of those in the Hidden Economy were likely to be so temporarily, as they were aware of the requirement to declare taxable activity and intended to declare their income at the next assessment.

Figure 7.1 Reasons for not declaring Hidden Economy income



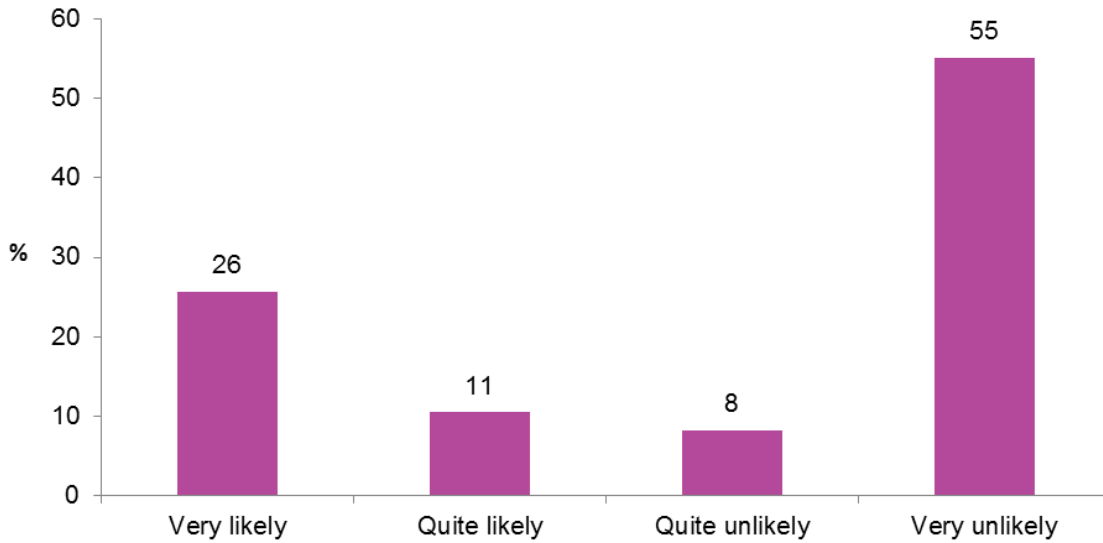
Base: All Hidden Economy activities, Phase 2 only (327)

Note: Percentages do not sum to 100, as respondents could give more than one answer to this question.

### 7.1.1 Likelihood of moving to the formal economy

For almost two thirds (63%) of Hidden Economy activities, the participants have stated that it was quite or very unlikely that they would move their Hidden Economy activity into the formal economy within the next 12 months (Figure 7.2). The remaining participants – just over one third (37%) – thought it was quite or very likely that they would move their Hidden Economy activity to the formal economy within the next 12 months.

Figure 7.2 Likelihood of declaring Hidden Economy income in the next 12 months

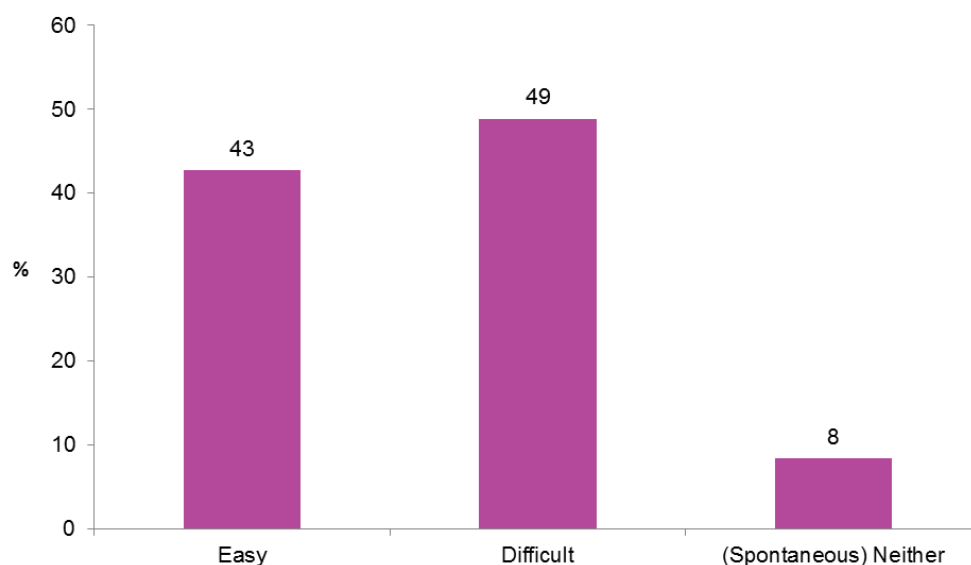


Base: All Hidden Economy activities where reason for not reporting was provided, Phase 2 only (335)

## 7.2 Perceived difficulty of declaring to HMRC

Hidden Economy participants were asked how difficult they thought it would be to declare their Hidden Economy income to HMRC. Almost half (49%) thought it would be difficult to declare their income or register for VAT (Figure 3.1).

Figure 7.3 Perceived difficulty of declaring



Base: All Hidden Economy respondents, phase 2 only (243)

## 7.3 Knowledge of tax rules

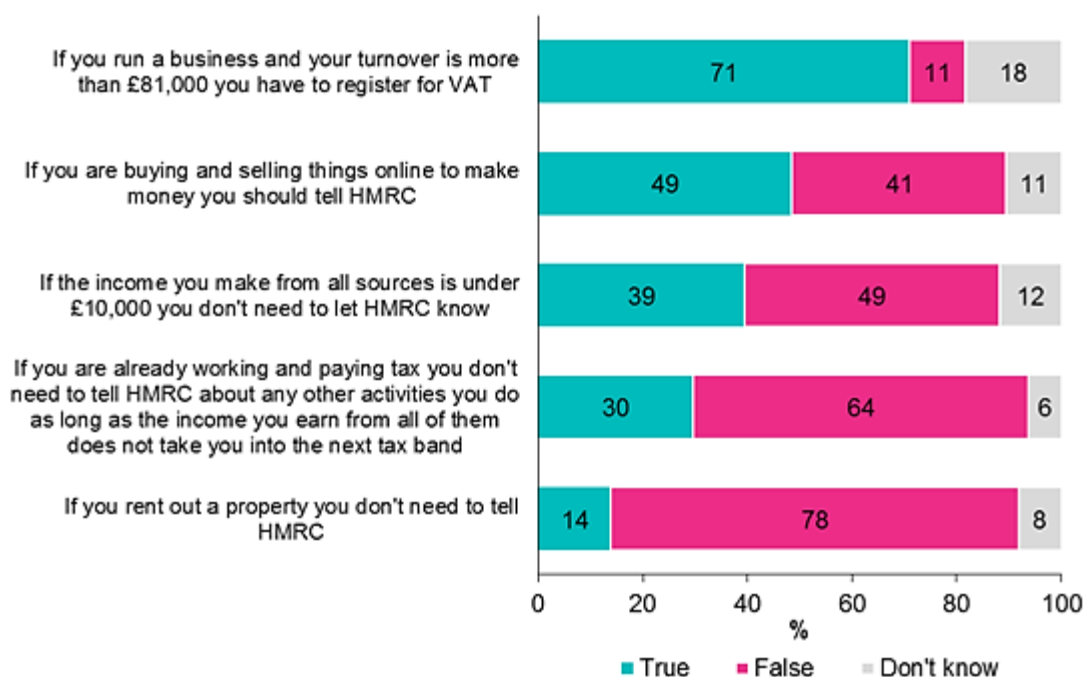
Hidden Economy participants were asked to rate a range of tax-related scenarios and statements as true or false (Figure 7.4), which gave an indication of their knowledge of the tax system.

Perception varied as to when a source of income should be reported to HMRC. Participants generally felt that HMRC should be told about a source of income if:

- **The income is a more stable, long-term income:** 78% thought it necessary to declare income from renting out a property, while only 49% thought it necessary to declare income from buying and selling online.
- **The person earns above the tax threshold and is liable to pay tax:** 64% thought that people already paying tax should tell HMRC about additional income (even if it did not take them into the next tax band).
- **It is a more formal, business income:** 71% stated that HMRC should be informed if a business had a turnover above £81,000 (the VAT threshold at the time) in order to register for VAT.

The questions asked here are simplified scenarios. There is no simple right or wrong answer, as tax rules vary depending on individual circumstances. These findings should therefore only be interpreted as respondents' perceptions.

Figure 7.4 Knowledge of tax rules



Base: All Hidden Economy respondents, phase 2 only (266)

## 7.4 Attitudes to tax compliance

Hidden Economy and non-Hidden Economy participants had similar views about business' and individual's attitudes to tax: the majority of Hidden Economy (89%) and non-Hidden Economy (90%) respondents believed it was common for businesses to try to pay as little tax as possible (Appendix Table 7.1). Many also felt that individuals would try to pay as little tax as possible (83% in the Hidden Economy group and 66% in the non-Hidden Economy group) (Appendix Table 7.2).

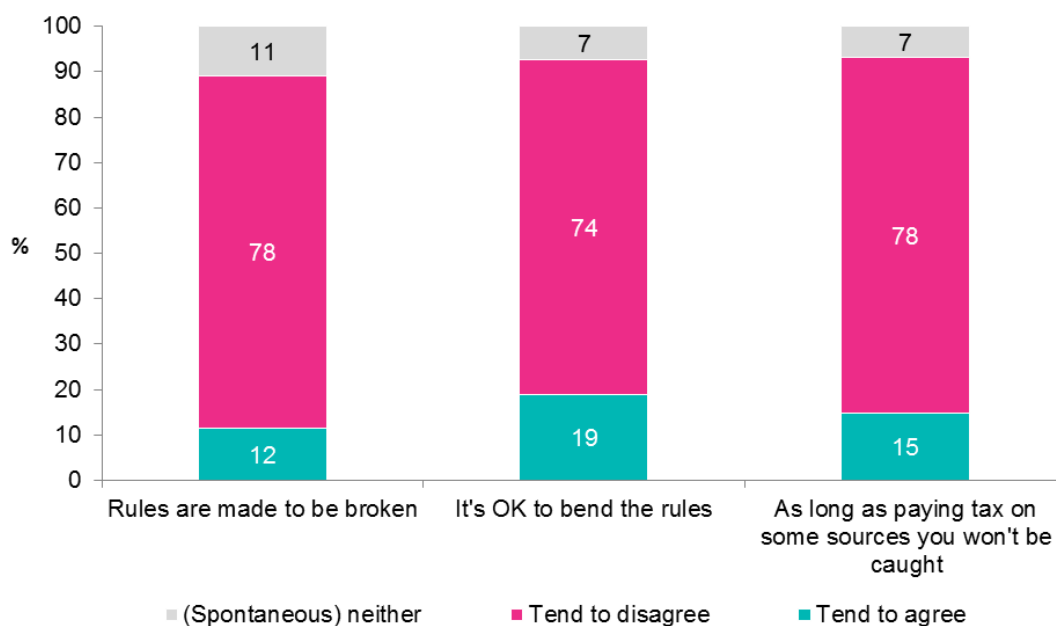
### 7.4.1 Attitude to risk

Hidden Economy participants were also asked questions that indicated their appetite for risk.

On the whole, Hidden Economy participants appeared to be relatively risk-averse. The majority did not agree that it was acceptable to break or to bend the rules (78% and 74% respectively), and disagreed that as long as they paid tax on some income they would not be caught (78%) (Figure 7.5).



**Figure 7.5** Hidden Economy participants' appetite for risk



Base: All Hidden Economy participants, phase 2 only (256/255/253)

Note: Base sizes vary between categories due to non-response. The lowest are displayed.

Hidden Economy participants with an undeclared activity that is a supplementary activity were more likely to agree that they would not get caught if they paid tax on some sources of income, than those with a more formal type of Hidden Economy activity (21% vs 8%) (Appendix Table 7.3). Nevertheless, the majority of Hidden Economy participants believed it was likely that they would be caught for not declaring income or registering for VAT (26% thought it very likely, 46% quite likely) (Appendix Table 7.4). Attitudes to risk did not vary by other characteristics such as participants' income.

## 7.4.2 Acceptability of not declaring income

Hidden Economy participants were asked how acceptable they considered different types of Hidden Economy behaviours<sup>17</sup>, including not declaring different amounts of money, occasional income, and income from internet activity (Figure 7.6). Tax rules vary depending on individual circumstances, and there are no simple right or wrong answers to many of these questions. Therefore, the findings in this section should only be interpreted as respondents' opinions.

It was considered more acceptable to not declare smaller amounts of income: 44% said it was acceptable to not declare amounts up to £500, while only 13% thought it acceptable to not declare amounts up to £10,000.

More than two-fifths of Hidden Economy participants (43%) thought it was acceptable to not declare occasional income, and a similar proportion (40%) saw not declaring income from buying and selling things on the internet as acceptable.

<sup>17</sup> Note that the question did not suggest that the income should have been declared, so it is possible that some respondents may have said acceptable because they believed the amounts did not need to be declared.

**Figure 7.6** Acceptability of not declaring different forms and amounts of income



Base: All Hidden Economy respondents, phase 2 only (265)

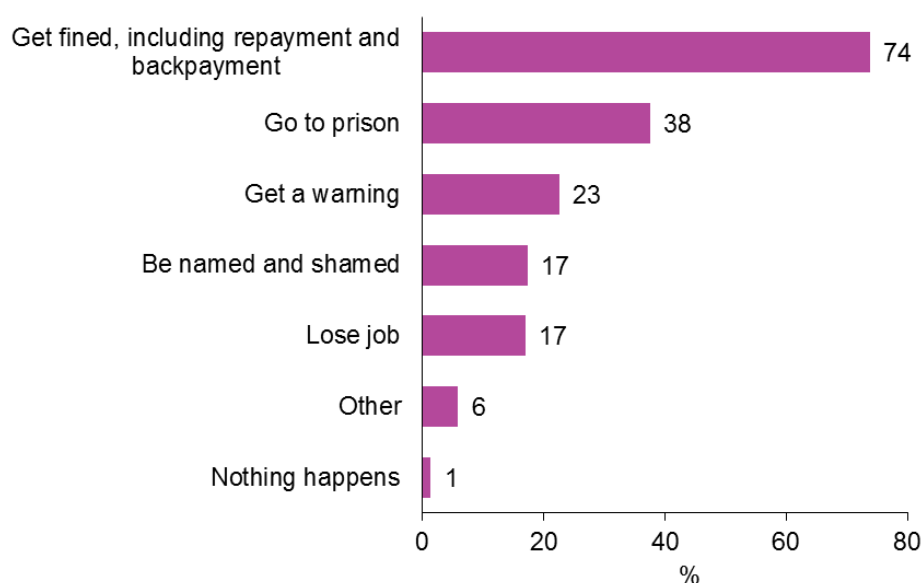
Note: Base sizes vary between categories due to non-response. The lowest are displayed.

Hidden Economy participants with a total personal income below the personal allowance were more likely to find it acceptable to not declare occasional income (51%), compared to those whose personal income was above the personal allowance (36%) (Appendix Table 7.5).

## 7.5 Perceived consequences of being caught not declaring income

Awareness of the consequences of being caught participating in the Hidden Economy varied. Most participants (74%) thought that those who get caught would receive a fine, while nearly two-fifths (38%) thought that those who were caught would go to prison and 1% thought that nothing would happen (Figure 7.7). These findings reflect the views from all those involved in the Hidden Economy, including those who no assumed tax liability or obligation to declare anything to HMRC.

Figure 7.7 Perceived consequences if caught



Base: All Hidden Economy respondents, phase 2 only (238)

Note: Percentages do not sum to 100, as respondents could give more than one answer to this question.

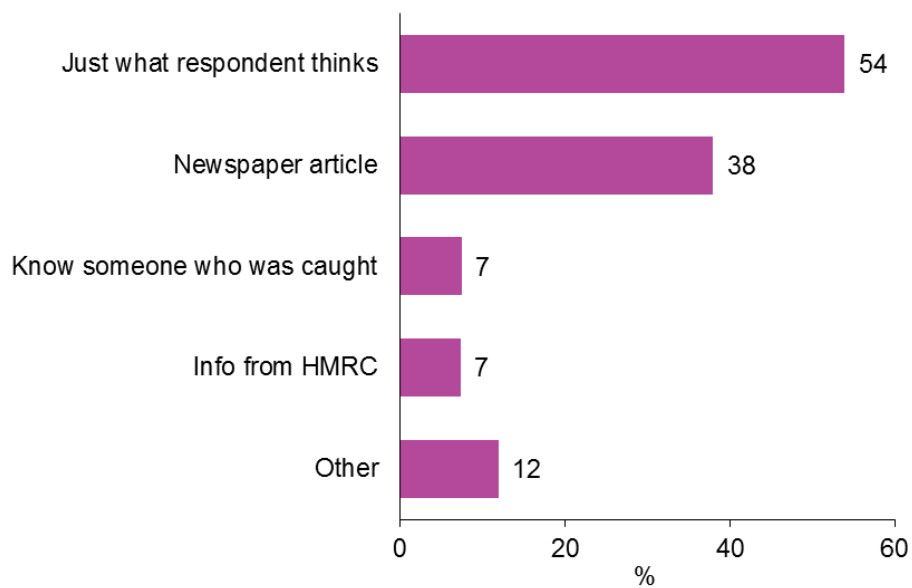
While there was not much variation in the proportion of Hidden Economy participants who thought they would be fined if caught, the proportion mentioning other consequences varied according to certain characteristics. In particular, Hidden Economy participants whose income was derived from an employment activity were more likely to think that they would get a warning (35% vs 19% for other activities) or lose their job (31% vs. 13% for other activities) (Appendix Table 7.6).

Participants who made £500 or more from their Hidden Economy activity were more likely to believe that they would be publicly named if caught, than those who made smaller amounts or nothing at all (23% vs. 11%) (Appendix Table 7.7).

### 7.5.1 Sources of information on the consequences of being caught

When asked on what they based their view of the consequences of being caught on, more than half of the respondents (54%) could not give a specific source (Figure 7.8). For those who were able to name a source, the most were newspaper articles about people who were caught (38%), knowing someone who had been caught, or information from HMRC (both 7%).

Figure 7.8 Sources of information on consequences of being caught



Base: All Hidden Economy respondents, phase 2 only (242)

Note: Percentages do not sum to 100, as respondents could give more than one answer to this question.

Hidden Economy participants who had a personal income below their personal allowance were more likely to say that they had no specific source of information on consequences of being caught (67%), compared to those whose income was above their personal allowance (45%) (Appendix Table 7.8).

## 8 Buying from the Hidden Economy

This chapter focuses on buying from the Hidden Economy. It is important to note that the data reports on those who *believed* they had bought from Hidden Economy, because they did not think the person they were paying was registered with HMRC for appropriate tax regimes. This is only an opinion of the respondent, as there is no way to ascertain if the person they bought from is operating in the Hidden Economy. It is likely that some of these transactions were in fact not part of the Hidden Economy, while it is also possible that other transactions were missed out because the buyer did not perceive that they were buying from the Hidden Economy. The figures discussed in this chapter should therefore only be seen as a proxy of people’s willingness to buy from the Hidden Economy.

### 8.1 Perception of buying from the Hidden Economy

All survey respondents were asked if they had “paid for any goods or services in the last 12 months where they had good reason to believe that the person they were paying would not tell HMRC about this money”. In the population as a whole, just under one in ten (8%) of respondents said they thought they had purchased goods or services in the last 12 months where they believed that income would not be declared to HMRC (Figure 8.1).

Figure 8.1 Perception of buying from the Hidden Economy



Base: All respondents (9,352)

Hidden Economy participants were more likely to purchase goods and services where they thought the seller would not declare the income to HMRC. In the past 12 months, 15% of those involved in the Hidden Economy thought they had bought from the Hidden Economy, compared with 7% of those in the non-Hidden Economy group (Figure 8.2).

We also asked how participants felt about this behaviour and compared the views of those who had a Hidden Economy activity themselves, with those who did not. The dominant view in both groups was that buying from the Hidden Economy was unacceptable, but those who had a Hidden Economy activity themselves were more likely to think it was acceptable to buy from the Hidden Economy (18%) than those who did not (13%) (Figure 8.2).

Figure 8.2 Attitudes to and perceived buying from Hidden Economy, by Hidden Economy involvement



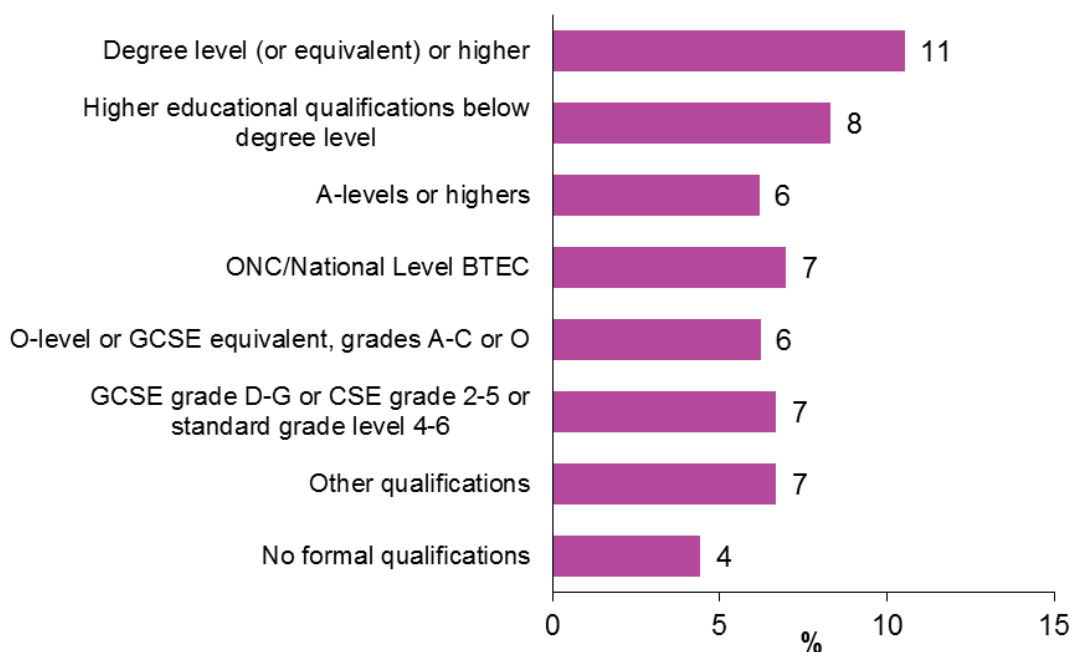
Base: All respondents (9,368)

## 8.2 Prevalence of perceived buying from the Hidden Economy

Different population subgroups were investigated to understand some of the factors associated with perceived buying from the Hidden Economy. Higher prevalence of willingness to buy from the Hidden Economy was found among

- **Men:** 9% compared to 6% among women (Appendix Table 8.1)
- **Those with higher levels of household income:** 12% of those earning a household income of £50,000 or over a year, compared to 4% to 9% of those earning less than this (Appendix Table 8.2)
- **Those with a total personal income higher than the personal allowance:** 9%, compared to 5% among those with an income below personal allowance (Appendix Table 8.3)
- **Directors of their own business:** 13%, which was almost twice as common as that found in other working groups (Appendix Table 8.4)
- **Those with degree or above level of education:** 11%, compared to 4% among those with no formal qualifications (Figure 8.3).

Figure 8.3 Prevalence of perceived buying from the Hidden Economy, by highest educational qualification

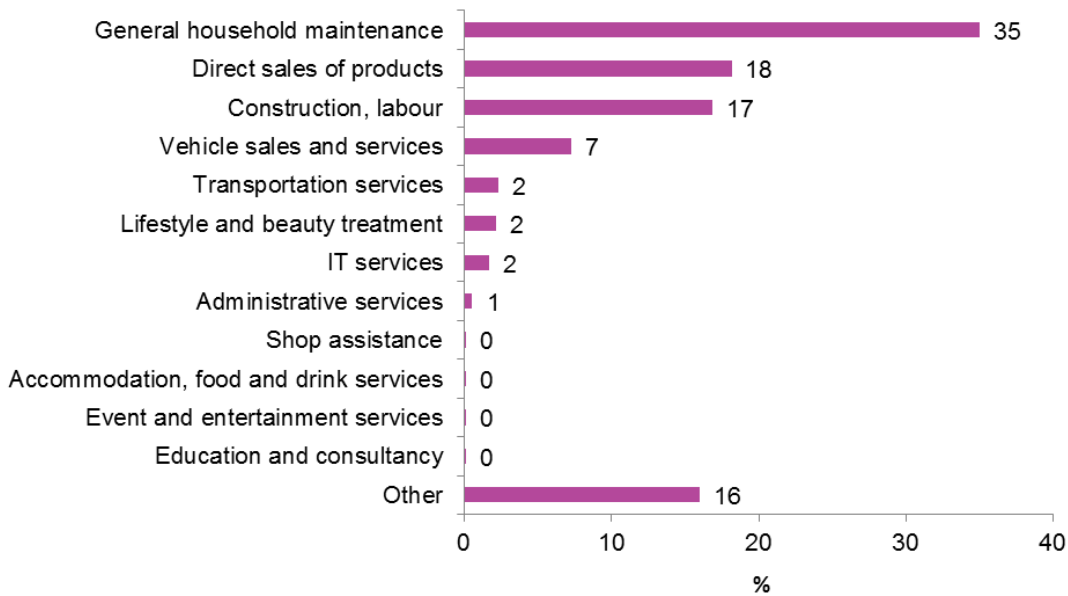


Base: All respondents (9,229)

### 8.3 Types of Hidden Economy goods/services perceived to have been purchased

Figure 8.4 shows the type of goods and services participants thought they had bought from the Hidden Economy. By far the most common category mentioned was general household maintenance (35%), followed by direct sales of products (18%), construction and labour (17%), and vehicle sales/services (7%). The 'Other' category consisted of responses which did not fit into any of the existing answer categories. These included services and goods such as car cleaning, miscellaneous purchases online, household services, personal items, and tobacco.

**Figure 8.4** Types of Hidden Economy good/service perceived to have been purchased: Goods and services purchased

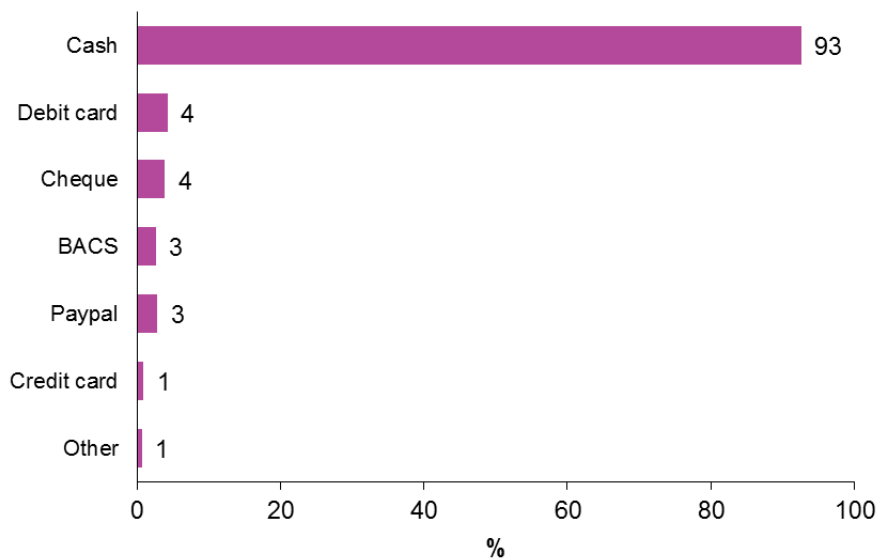


Base: All respondents who thought they had bought from Hidden Economy in the past 12 months (506)

Over half of participants (58%) who thought they had purchased from the Hidden Economy reported having done so once or twice in the last 12 months (Appendix Table 8.5). A small number of participants (7%) reported a higher number of purchases, ranging from 12 to 200 purchases.

The majority of participants (93%) who thought they had bought from the Hidden Economy said they had done so using cash (Figure 8.5). Other payment methods such as debit card or cheques were rarely reported (both used by 4% of participants).

**Figure 8.5** Methods of payment for perceived purchases from the Hidden Economy



Base: All respondents who thought they had bought from Hidden Economy in the past 12 months (500)

Note: Percentages do not add to 100, as respondents could give more than one response to this question.



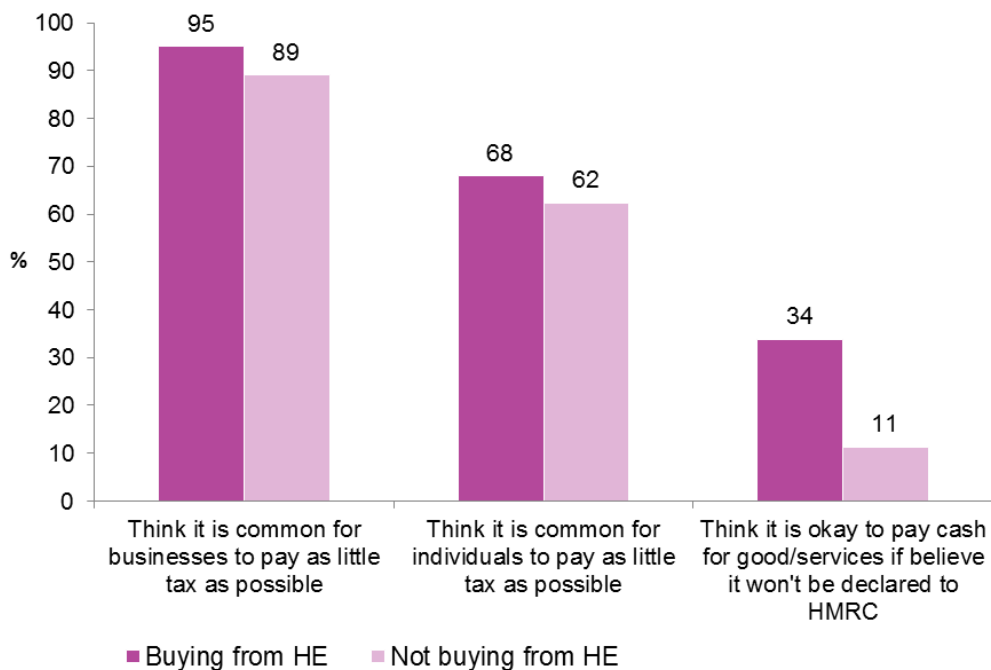
## 8.4 Views on the tax system

Finally, this section considers whether those who thought they had bought from the Hidden Economy had different views on the tax system compared to those who did not think they had.

The majority of both buyers and non-buyers from the Hidden Economy believed that businesses try to pay as little tax as possible, but this view is more common among buyers (95% think it is common, compared to 89% of non-buyers) (Figure 8.6). Those who thought they had bought from Hidden Economy were also more likely to believe that individuals try to pay as little tax as possible: 68% of buyers hold this view compared to 62% of non-buyers.

Those who thought they had bought from the Hidden Economy were also more likely to think it was okay to pay cash for goods or services even if they believed that the person they were paying was not registered with HMRC for appropriate tax regimes (34% of those who thought they had bought from Hidden Economy, compared to 11% of those who did not). However, over one in ten (11%) of those who did not think they have bought from Hidden Economy still considered it acceptable to do so.

**Figure 8.6** Views on commonality of trying to pay as little tax as possible and acceptability of buying from Hidden Economy



Base: All respondents who thought they had bought from the Hidden Economy (699/705/708)

# Appendix A. Questionnaire design and content

The questionnaire had two components: a short screening interview for all respondents and a longer extended interview for those involved in the Hidden Economy. The screening interviewer was designed to establish involvement in the Hidden Economy and to collect contextual information about income generating activities and demographic characteristics of respondents. The extended questionnaire focused on the characteristics of Hidden Economy activities such as duration of involvement, working hours, estimated income, payment methods and working practices, as well as motivation and awareness.

## Screening interview

- Finances and economic activity
- Tax paid, income declared, payslips
- Employment status
- Involvement in buying and selling goods, casual labour or renting of space or tools
- Attitudes to tax system
- Buying from Hidden Economy
- Demographic characteristics (e.g. sex, age, education and household income)
- Income from activities
- Methods of advertising

**If respondent considered to be part of Hidden Economy**



## Extended interview

- Reasons for not declaring to HMRC
- Likelihood to move to formal economy
- Duration of involvement, industry, hours worked
- Estimated income, payment, main income
- Number of employees, use of payslips
- Record-keeping and receipts
- Client base
- Equipment and premises
- Other regulatory activity

Only those classed as Hidden Economy were asked the extended questions. Involvement in the Hidden Economy was not asked directly, but ascertained using a series of questions about income generating activities, income, tax paid, payslips (for employees) and whether activities were declared to HMRC.

The criteria for being classed as Hidden Economy is shown below for VAT non-registered and for other forms of Hidden Economy activity:

### Defined as VAT non-registered

<b>Self-employed or director</b>	Turnover > VAT threshold (£81,000/£82,000/£83,000) and not VAT-registered
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### Defined as Hidden Economy

<b>Employee</b>	Income > personal allowance (£10,000/£10,600/£11,000)	Pays no tax		
	Other income level	Pays no tax	&	No payslip
<b>Self-employed</b>	Income > personal allowance	Pays no tax		
	Other income level	Pays no tax	&	Not declared
<b>Supplementary activity</b>	Income > personal allowance	Pays no tax		
	Other income level	Pays no tax	&	Not declared
<b>Room rental</b>	Income > personal allowance & Hidden Economy income > room rent allowance	Pays no tax		
	Hidden Economy room rent > room rent allowance	Pays no tax	&	Not declared

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## Advertising responses and categories

Respondents were asked what forms of advertising they used and interviewers recorded all forms of advertising mentioned for each activity. For analysis, different forms of advertising were grouped into three broad categories: web-based, traditional and direct advertising.

### Web-based advertising

Own website

Online marketplace such as Ebay, Amazon or Etsy

Web listing service such as Gum Tree or SpareRoom

Social networking website, such as Facebook or Yammer

Any other kind of website, such as e-books, advert on a commercial website

### Traditional advertising

Flyer, leaflet, poster or noticeboard (not web based)

Business card

Telephone

Advert in a newspaper, magazine or yellow pages etc.

### Direct advertising

Word of mouth, networking

Directly on a market stall (not asked for casual, rental)

Directly on a pitch (not asked for casual, rental)

### Other

Through an agency (casual and rental only)

In some other way\*

Did not advertise (spontaneous)

\* *Where possible, other forms of advertising were backcoded to existing categories.*

## Appendix B. Appendix Tables

This appendix includes additional tables not shown in the main body of the report.

### Chapter 5: Characteristics of the Hidden Economy group

Appendix Table 5.1 Proportion of Hidden Economy supplementary activities

Base: All Hidden Economy respondents, excluding VAT non registered

	%
Buying and selling to make money	30
Casual work	25
Making money form a hobby	14
Rental activities	6
<i>Unweighted base</i>	379

Appendix Table 5.2 Number of Hidden Economy activities

Base: All Hidden Economy respondents, excluding VAT non registered

	%
One	86
Two	11
Three	3
<i>Unweighted base</i>	379

### Chapter 6: Nature of Hidden Economy activity and business practices

Appendix table 6.1 Whether sees activity as permanent or temporary

Base: All Hidden Economy activities, phase 2 only

	%
I see/saw this as permanent	30
I see/saw this as temporary	70
<i>Unweighted base</i>	319

Appendix table 6.2 How frequently does/did the activity

Base: All Hidden Economy activities, phase 2 only

	%
Every week	38
At least once a fortnight	6

Appendix table 6.2 How frequently does/did the activity	
At least once a month	9
At least once every three months	6
Less often	41
<i>Unweighted base</i>	322

Appendix table 6.3 Hours worked on Hidden Economy activity per week in the last 12 months	
<i>Base: All Hidden Economy activities</i>	
	%
Less than 16 hours	79
16 hours or more	21
<i>Unweighted base</i>	273

Appendix table 6.4 Number of employees	
<i>Base: All Hidden Economy activities, phase 2 only</i>	
	%
None	64
1	8
2 to 4	9
5 to 9	5
10 to 19	6
20-49	3
50 or more	3
Don't know but less than 25 (Spontaneous only)	-
Don't know but 25-49 (Spontaneous only)	0
Don't know but more than 50 (Spontaneous only)	2
<i>Unweighted base</i>	324

Appendix table 6.5 Whether keeps records	
<i>Base: All Hidden Economy activities</i>	
	%
Yes - electronically	25
Yes - paper files	22
No records are kept	61
<i>Unweighted base</i>	276

### Appendix table 6.6 Whether keeps records and type of record kept

<i>Base: All Hidden Economy activities</i>	
	%
Yes – electronic and paper records	9
Yes – electronic records only	17
Yes - paper files only	14
No records are kept	61
<i>Unweighted base</i>	276

### Appendix table 6.7 Whether receives assistance in record-keeping

<i>Base: All Hidden Economy activities, phase 2 only</i>	
	%
A paid agent, such as an accountant or book keeper	13
A friend or relative	3
An unpaid agent, such as a charity	0
Anyone else	-
No one - I do this myself	81
<i>Unweighted base</i>	239

## Chapter 7: Motivations, barriers and attitudes among Hidden Economy participants

### Appendix Table 7.1 Common for businesses to try to pay as little tax as possible, by Hidden Economy

<i>Base: All respondents</i>		
	Hidden Economy	Not Hidden Economy
	%	%
Common	90	89
Uncommon	10	11
<i>Unweighted base</i>	375	8146

*Note: No significant difference between Hidden Economy and non-Hidden Economy groups.*

### Appendix Table 7.2 Common for individuals to try to pay as little tax as possible, by Hidden Economy

<i>Base: All respondents</i>		
	Hidden Economy	Not Hidden Economy
	%	%

Common	83	66
Uncommon	37	34
<i>Unweighted base</i>	8167	368

Note: No significant difference between Hidden Economy and non-Hidden Economy groups.

### Appendix Table 7.3 Assessment of risk of not paying tax on some income sources by whether HE is a supplementary activity

Base: All Hidden Economy respondents, Phase 2 only

	HE is not a supplementary activity	HE is a supplementary activity
	%	%
Tend to agree with the statement 'As long as paying tax on some sources you won't be caught'	8	21
Tend to disagree with the statement 'As long as paying tax on some sources you won't be caught'	83	73
Neither agree nor disagree with the statement 'As long as paying tax on some sources you won't be caught'	9	6
<i>Unweighted base</i>	96	137

### Appendix table 7.4 Perceived likelihood of getting caught if not declaring income

Base: All Hidden Economy activities, phase 2 only

	%
Very likely	26
Quite likely	46
Quite unlikely	20
Very unlikely	7
<i>Unweighted base</i>	293



### Appendix Table 7.5 Acceptability of not declaring occasional income by whether person is above or below personal allowance threshold

Base: All Hidden Economy respondents, Phase 2 only

	Total personal income above personal allowance threshold	Total personal income below personal allowance threshold
	%	%
Unacceptable	31	16
Neither acceptable nor unacceptable	27	27
Acceptable	36	51
Don't know	6	6
<i>Unweighted base</i>	160	99

### Appendix Table 7.6 Perceived consequences if caught by whether HE an employment activity

Base: All Hidden Economy respondents, Phase 2 only

	HE not an employment activity	HE an employment activity
	%	%
Get fined, including repayment and back payment	85	83
Go to prison	48	33
Get a warning	19	35
Be named and shamed	17	11
Lose job	13	31
Other	5	-
Nothing happens	1	2
<i>Unweighted base</i>	168	51

### Appendix Table 7.7 Perceived consequences if caught by HE income

Base: All Hidden Economy respondents, Phase 2 only

	Under £500	£500 or over
	%	%
Get fined, including repayment and backpayment	84	88
Go to prison	41	50
Get a warning	20	27
Be named and shamed	11	23
Lose job	14	24
Other	5	6
Nothing happens	-	-
<i>Unweighted base</i>	130	85

### Appendix Table 7.8 Sources of information on consequences of being caught by whether person is above or below personal allowance threshold

Base: All Hidden Economy respondents, Phase 2 only

	Total personal income above personal allowance threshold	Total personal income below personal allowance threshold
	%	%
Just what respondent thinks	45	67
Newspaper article	42	32
Know someone who was caught	10	-
Info from HMRC	9	6
Other	11	12
<i>Unweighted base</i>	152	86

## Chapter 8: Buying from the Hidden Economy

### Appendix Table 8.1 Demographic factors associated with buying from the HE: Gender

Base: All respondents

	Male	Female
	%	%
Buying from HE	9	6
Not buying from HE	91	94
<i>Unweighted base</i>	4438	4895

### Appendix Table 8.2 Demographic factors associated with buying from the HE: Annual household income

Base: All SE Providers (Provider)

	Less than £5,000 a year	£5,000 to £10,000 a year	£10,000 to £15,000 a year	£15,000 to £20,000 a year	£20,000 to £25,000 a year	£25,000 to £30,000 a year	£30,000 to £35,000 a year	£35,000 to £40,000 a year	£40,000 to £45,000 a year	£45,000 to £50,000 a year	£50,000 or over a year
	%	%	%	%	%	%	%	%	%	%	%
Buying from HE	4	7	5	7	9	6	9	5	9	8	12
Not buying from HE	96	93	95	93	91	94	91	95	91	92	88
<i>Unweighted base</i>	198	351	528	447	387	355	341	252	295	172	1274

### Appendix Table 8.3 Demographic factors associated with buying from the HE: Income larger than personal allowance

*Base: All respondents*

	<b>Income higher than personal allowance</b>	<b>Income lower than personal allowance</b>
	%	%
Buying from HE	9	5
Not buying from HE	91	95
<i>Unweighted base</i>	5633	2884

### Appendix Table 8.4 Demographic factors associated with buying from the HE: Work status - director

*Base: All respondents*

	<b>Worked as a director of their own business</b>	<b>Not worked as a director of their own business</b>
	%	%
Buying from HE	7	13
Not buying from HE	93	87
<i>Unweighted base</i>	8999	367

### Appendix Table 8.5 Features of HE good/service purchased: Number of goods/services purchased

*Base: All respondents who had bought from Hidden Economy in the past 12 months*

	%
1	37
2	21
3	8
4	4
5	4
6	5
7 to 11	4
12	7
More than 12	10
<i>Unweighted base</i>	480