



HM Revenue
& Customs

Call for evidence: cash, tax evasion and the hidden economy

Summary of Responses
24 March 2016

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1. Introduction

- 1.1 This document summaries the key findings from HMRC's call for evidence titled "Cash, tax evasion and the hidden economy". The call for evidence was open from 25th November 2015 to 27th January 2016.
- 1.2 Trends around payment methods suggest that the use of cash by both consumers and businesses is in relative decline. The call for evidence asked for views and evidence on this suggested decline, and its impacts on tax compliance, the hidden economy and money laundering.
- 1.3 HMRC received 18 written responses from various payments, business and tax representative bodies, and individuals (as listed in Annex A). HMRC also held meetings with a number of respondents, two of whom provided their input to the call for evidence in this way. HMRC is grateful for the interest this call for evidence generated and wishes to thank those who responded, recognising the time and effort that went into the comments and contributions.

2. Responses

- 2.1 The call for evidence asked specific questions about the links between cash and tax compliance; these questions and a summary of responses are listed in Annex B.
- 2.2 Alongside this evidence, many respondents took the opportunity to submit broader observations about the role of cash in the economy and society. These responses emphasized that cash has a significant role to play in the functioning UK economy, and that it facilitates millions of legitimate transactions.
- 2.3 A substantial amount of evidence was received on the various reasons that consumers and businesses prefer cash. Amongst these, the suggestions that cash is cheap, quick, familiar, anonymous and good for budgeting were the reasons cited most frequently.

3. Summary of key findings

3.1 Although cash usage is in decline, cash is still used by millions of consumers and businesses every day and is unlikely to disappear in the foreseeable future. Cash is popular for a number of reasons – it is quick to use, dependable and universally accepted. It can be used as a store of value or for budgeting. It is the primary (and in some cases the only) means of payment for significant numbers of people. There is unlikely to be a single replacement for cash as a payment method.

Cash use and tax compliance

3.2 Some respondents provided evidence that cash is used in the hidden economy and to facilitate tax non-compliance, and this is consistent with HMRC's own operational experience. However this does not necessarily mean that a decline in the use of cash will result in it being used less for these purposes, or that an increase in the use of cash alternatives will improve compliance in these areas.

3.3 Views received from the call for evidence suggest that those intent on evading payment of tax or committing financial crimes will find a way to do so, regardless of any trend. Technological developments and new alternative payment methods may also bring new risks to tax compliance, as these could be less visible to HMRC or prone to misuse. Respondents said that HMRC must stay alert to these risks.

Financial inclusion

3.4 Many responses emphasised the importance of considering financial inclusion when thinking about trends in cash usage. Cash is often the preferred method of payment for vulnerable groups and they (and others) should be able to legitimately use it without unnecessary scrutiny. Whilst the increasing variety of payment method options does present opportunities and benefits for some, some individuals and businesses may be hindered or negatively impacted by the pace and direction of change.

Contactless

3.5 Contactless debit or credit card payment is seen as a game changer by many respondents, but the type and extent of impact it will have is still to be fully understood.

Money Laundering

3.6 Views received reinforced existing knowledge within HMRC, developed through its close collaboration with the National Crime Agency (NCA), that cash is commonly used as a facilitator for money laundering purposes. Respondents, including the NCA, stated that criminals often use cash rich businesses to disguise the origins of their funds, and suggested that this is unlikely to change in the near future. Respondents took the view that serious and organised criminals will always seek to launder or smuggle the proceeds of crime using the most surreptitious methods available, and that cash will continue to be central to these.

Annex A: List of stakeholders consulted

Anpa Forward Ltd.
Association of Accounting Technicians
Cash Services
Chartered Institute of Taxation
Grant Thornton
Link
London Society of Chartered Accountants
Payments UK
Paypoint
Stewardship
The Association of Convenience Stores
The Bank of England
The Federation of Small Business
The Institute of the Chartered Accountants in Scotland
The National Crime Agency
The UK Cards Association
Visa Europe
Vocalink
Your Cash Ltd.

One response from a private individual

Annex B: Responses to the specific questions posed

The views summarised in this Annex are responses received from the call for evidence, and are not an expressed opinion of HMRC.

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

- 1.1 Respondents expressed mixed views on the likely impact of the relative decline in cash on tax non-compliance. Some questioned whether cash is, in fact, in relative decline. However, several agreed that there has been a clear trend away from cash, and provided evidence to this effect.
- 1.2 Several respondents asserted that trading in cash is a widespread facilitator of tax evasion, and therefore that non-compliance would be increasingly difficult if cash usage diminished further. One stressed the importance of HMRC seeking to maintain a level playing field for compliant business, and therefore seeking to deter the continued use of cash for tax evasion. However, others argued that there was unlikely to be a simple correlation between declining cash and increased tax compliance.
- 1.3 Several respondents also stated that cash can often contribute to errors in record keeping which can in turn contribute to incorrect tax returns. Some also suggested that a digitised future could mean there is less scope for error and that HMRC should focus on educating and helping people to use digital tools.
- 1.4 Overall, the majority of respondents agreed that those determined to evade tax would find ways to continue to do so, either through continued use of cash or by using technological advancements to find alternative ways to hide or suppress income. However it was suggested that since not all evaders will be sophisticated enough to switch to new methods of evasion, there should still be potential to reduce the tax gap.

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

- 1.5 Most respondents reported that they could supply no direct evidence of cash being used in this way. However, some suggested that cash is the main enabler of the hidden economy and that it can be used to conceal, suppress or understate income. These respondents also broadly agreed with the suggestion in the call for evidence that, given the untraceable nature of cash, it is inherently difficult to determine precisely how much cash is used in these ways.

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

- 1.6 Most respondents indicated that they could supply no evidence in answer to this question. Among those that did respond, there were mixed views provided.

- 1.7 Several responses asserted that cash does facilitate tax non-compliance, although the extent to which this happens is very difficult to estimate. One respondent suggested that cash contributes to non-deliberate non-compliance by making it more difficult for businesses and individuals to keep contemporaneous records.

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

- 1.8 Detailed evidence was received in response to this question. Many provided evidence as to why cash is and will continue to remain popular, stating that it is universally accepted, quick to use, familiar, useful for budgeting, dependable and a reliable store of value. That being said, many respondents also cited Payments UK statistics to acknowledge an ongoing trend away from cash, including the following:
- The proportion of consumer payments made in the UK using cash has fallen from 71% in 2004 to 53% in 2014. It is forecast that this will fall further to 34% by 2024;
 - By 2024, it is forecast that there will be 12.7 billion cash payments, a fall of 30%;
 - Cash volumes spent are forecast to fall by 30% over the next ten years. Values are forecast to decline at a slower rate, falling in nominal terms from around £253 billion to £238 billion¹.

Cash users

- 1.9 Several respondents highlighted a statistic from the Payments UK Report referenced in the call for evidence, that 1.6 million people in the UK rely predominantly on cash. Of these, one respondent stated that 78% are aged 45 or over (40% of which are over 65) and that this represents 3.1% of UK adults. Evidence was also presented that there are nearly two million ‘unbanked’ individuals (that is, those individuals who never interact with the banking system) in the UK and that half of those with basic bank accounts still choose to manage their money in cash².
- 1.10 It was also suggested that those on low incomes (or in other vulnerable groups) are more likely to rely on cash, pointing to the Payments UK report and its assertion that 40% of consumers reliant on cash have a total household income of less than £10,000. Respondents suggested that the use of cash as a budgeting tool is particularly beneficial for these groups, especially in times of economic difficulty or austerity.
- 1.11 Several respondents provided evidence about cash usage in the convenience retail sector, indicating that whilst such businesses are adapting to respond to consumer need (for example, 33% of stores offer contactless³), cash remains the dominant payment method due to typically small total spends and frequent visits by

¹ Responses referenced Payments UK’s UK Cash & Cash Machines 2015 report

² Cash Services response

³ The Association of Convenience Store’s Local Shop Report 2015

the consumer. Evidence received suggests that 81% of consumers in this sector pay in cash⁴.

The Trend

- 1.12 Most respondents agreed that for the foreseeable future, cash is likely to remain a vital payment method for millions of people. Views expressed indicated that any trend away from cash is unlikely to be steady or linear and that it is unlikely to continue to the extent that cash use is completely eradicated, instead settling at a lower level than current rates. Payments UK estimates suggest that cash will still account for 3 in every 10 payments made in 2024.
- 1.13 Cash also remains extremely popular and evidence suggests that this popularity will continue. It was noted that a quarter of respondents to a public survey whose reported preferred method of payment was cash said that nothing would drive them away from using it in the future⁵. Someone also suggested it was unlikely that any single alternative payment method would command the payment landscape as cash once did, stating instead that cash would likely remain a popular option among a range of alternatives. One respondent also pointed to investment in banknote modernisation as demonstrative of the continuing popularity of, and demand for, cash.

Factors that may impact the trend

- 1.14 Many respondents cited widespread innovation and increasing consumer choice in the payments industry as a key factor influencing the trend away from cash. Smart phone payment methods were suggested as one such example of an increasingly popular cash alternative, particularly as they can be used for low value payments.
- 1.15 Some respondents suggested that migration to debit cards would be a key factor in the trend away from cash, reinforced by an increased awareness and usage of contactless payment methods that include payments made using a mobile device. The universal and free acceptance of debit cards is seen as a key factor in people potentially moving away from cash in the future, and one respondent forecast that the total value of card payments will increase from approximately £550 billion in 2014 to around £900 billion by 2024⁶. Responses noted that migration would depend on both consumers and businesses becoming more comfortable with using cards to pay for low value transactions, and that some of this may depend on businesses' perceived and actual costs of handling these payment methods in comparison to cash.
- 1.16 On the impact of contactless debit and credit cards in particular, all respondents that commented agreed that it was growing quickly in popularity. One response highlighted that in November 2015, 125.7 million UK contactless transactions were made, an increase of 5.8% on the previous month and 219.8% across the whole of the year⁷. Views predicted that this rise would continue, with the numbers of contactless cards in issue increasing and given that all card terminals must be contactless enabled from January 1 2020.

⁴ The Association of Convenience Store's Local Shop Report 2015

⁵ Bank of England

⁶ UK Cards

⁷ VISA Europe

- 1.17 Many emphasised the importance of the uptake of contactless by Transport for London in increasing consumers' familiarity and security in using it. One respondent noted that over 60 million journeys paid for with contactless were made on the London Transport Network in the first six months of its rollout, and suggested that increasing familiarity with contactless elsewhere in the country could further increase its uptake.
- 1.18 In terms of what this popularity means for cash usage, respondents' views were more mixed. Some suggested that contactless could be seen as a direct replacement for cash, pointing to its similarities in speed and convenience, particularly for low value payments where cash is often used (in 2014, 56% of payments in cash made by consumers were for a value of £5 or less⁸). Others suggested that contactless debit and credit cards were a direct replacement for the chip and pin versions.
- 1.19 Other factors proposed as potentially impacting the use of cash include security and privacy concerns about alternative methods that may push consumers and businesses towards cash. Other views included: a generational shift (there is evidence that younger generations prefer to use electronic means of payment); the increasing use of internet banking and shopping; the reluctance of government to deal in cash; and the increased convenience of alternatives, all being potential influencers.
- 1.20 Finally, one respondent suggested that technological development could enhance cash usage, noting that consumers can now use cash to credit online accounts for use with some digital brands.

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

5a. HMRC's compliance activities

- 1.21 Most respondents agreed that innovative new payment methods and the rapidly changing payment landscape are factors in the trend away from cash. Many also suggested that this would affect HMRC's compliance activities; mixed views were received on what this impact would look like.
- 1.22 Several respondents suggested that the impact would be of benefit to HMRC's compliance activities. These respondents stated that the larger digital footprint often created by cash alternatives (and particularly, debit and credit cards) could be used to reduce the opportunity for deliberate tax evasion, leading to better targeting and greater efficiencies. It was also suggested that if HMRC is better able to target non-compliant businesses and individuals through its use of data, its relationships with compliant businesses could be improved as there would be less unnecessary contact.
- 1.23 On the other hand, several respondents suggested that the change in the payments landscape would make HMRC's compliance activities more difficult, for a

⁸ Payments UK's UK Cash & Cash Machines 2015 report

number of reasons. For instance, although HMRC's data gathering powers make it more difficult for digital transactions to be hidden, those intent on evasion or operating within the hidden economy are unlikely to choose a payment method with an audit trail. Several suggested that some digital payment methods or alternative currencies provide less of an audit trail than cash, and also that audit trails that can be amended, deleted or are not visible at all.

- 1.24 Respondents stressed the importance of HMRC keeping up to date with the rapidly changing payment landscape, stressing that today's innovations could be obsolete in a short timeframe. These respondents urged HMRC to ensure its rules and approaches were up to date and robust enough to tackle the threats generated by this. Some respondents expressed concern that HMRC resource constraints may impact on our ability to tackle non-compliance, stressing in particular that comparisons of lifestyle to income levels should be a critical tool to tackle the hidden economy.

5b. HMRC's customers

- 1.25 Mixed views were received regarding the impact on HMRC's customers of a decline in the use of cash. Some respondents suggested that the impact would be beneficial, for instance, for businesses. One suggested that digital payment methods enable payments to be more attributable and have a greater audit trail, in turn making record keeping for tax purposes easier. Another view was stated that although new technology may make data capture more secure, this will not be a dramatic change for compliant business.
- 1.26 In contrast, several suggested that a trend away from cash makes it harder for businesses, especially small ones. They stated that whilst traditionally cash has been a cost effective way of taking and making payment, higher charges mean this is no longer always the case. Some suggested that the costs of providing consumers with the choice of paying by card was prohibitive.
- 1.27 Finally, several respondents suggested that HMRC's customers may not continue to move away from cash and that there could be a resurgence in its popularity, for instance in the event of security, privacy or other concerns about alternative methods. One respondent highlighted a recent report published by Symantec indicating that half of UK consumers are concerned about the security of their data and that only 21% of people trust retailers to keep their data safe.

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

- 1.28 Respondents broadly agreed that cash is attractive for money launderers for a variety of reasons. The use of cash in the transfer of funds can reduce the amount of contact with the regulated sector; it is also untraceable, readily exchangeable and anonymous. Several also referenced a recent Europol⁹ report that suggested cash is important to break digital audit trails.

⁹ Europol 2015. Why is cash still king? A strategic report on the use of cash by criminal groups as a facilitator for money laundering.

- 1.29 In terms of any impact a decline in the use of cash may have on this activity; whilst several respondents suggested that large cash transactions would stand out more and therefore be easier to target for investigation, most stated that those who launder money will continue to use cash because of the qualities set out above. Respondents stated that those intent on criminality will always seek to launder the proceeds of crime, either by using cash or by turning to digital methods or alternative currencies. It was recommended that HMRC be vigilant to such developments.
- 1.30 Evidence provided suggested that high denomination Euros and US Dollars are the most commonly used means for money launderers. UK sterling notes are also popular and criminal groups are successfully smuggling significant amounts of cash out of the UK.
- 1.31 One respondent reported that criminals use a range of methods to move cash around, including Money Service Businesses¹⁰ and cash rich businesses such as scrap metal wholesalers, nail bars, high value dealers, gambling businesses and takeaways, amongst others. Whilst it was stated that the majority of such businesses are completely legitimate, they are attractive to those seeking to conceal the origins of funds. In particular, money launderers can use Money Service Businesses to send funds overseas or convert them into high denomination notes.
- 1.32 Several respondents focussed on what HMRC's and the government's response should be to this threat. One respondent highlighted the Money Laundering Regulations in the UK which provide that if traders accept cash payments in excess of €15,000, they are required to be supervised as a "High Value Dealer", which may be a deterrent to some criminals. The current Suspicious Activity Report¹¹ system was also put forward as a deterrent, particularly for those who wish to use the banking sector as a way to launder money.
- 1.33 Several respondents pointed to the international precedent of imposing limits on cash payments between consumers and traders, highlighting the following regimes and suggesting that consistency of such rules across the EU could contribute to a reduction in cash being used for money laundering:
- France: a limit of €1,000 for French citizens and €10,000 for non-residents (e.g. tourists);
 - Spain: a limit of €2,500 for Spanish citizens and €15,000 for non-residents;
 - Italy: a limit of €2999.99.
- 1.34 One respondent observed that the introduction of new polymer banknotes and the new £1 coin will improve the resilience of cash. Evidence from other European

¹⁰ For the purpose of this document, Money Service Business means money transmitters, bureaux de change and cheque cashers

¹¹ A suspicious activity report (or SAR) is a report made by a financial institution about suspicious or potentially suspicious activity.

countries shows that only 1% of legacy currency is typically unreturned¹² and as such, the upcoming programme of currency modernisation presents an opportunity to reset cash levels, as well as reduce the amount being hoarded or held in the hidden economy.

- 1.35 It was also suggested that Exchange of Information agreements and greater international cooperation and data sharing are a factor that is changing the way in which criminals launder money.

¹² Cash Services