



HM Revenue
& Customs

Tackling the hidden economy: Conditionality

Summary of Responses
20 March 2017

Contents

1	Introduction	3
2	Summary of responses	6
3	Responses to the consultation questions	8
4	Next steps	22

Annex A	List of stakeholders consulted	
---------	--------------------------------	--

On request this document can be produced in Welsh and alternative formats including large print, audio and Braille formats

1. Introduction

- 1.1 This document summarises responses to the consultation document '*Tackling the hidden economy: Conditionality*'. This consultation discussed the principle of conditionality, which would involve making access to licences or services needed to trade conditional upon tax registration. It explored how conditionality could reduce activity in the hidden economy. It did not present firm policy proposals but sought views on the underlying principles of conditionality, the best approach to delivering this, and the services and sectors in which it could be an effective compliance tool. The next steps for this policy are outlined at chapter 4 of this document.
- 1.2 The consultation opened on 26 August 2016 and closed on 21 October 2016. The government is grateful to all those who responded or participated in meetings for taking the time to consider the issues raised by this consultation. A copy of the original consultation document is available at:

<https://www.gov.uk/government/consultations/tackling-the-hidden-economy-conditionality>

Context for the consultation

- 1.3 The majority of UK taxpayers pay what they owe, but a small minority seek to evade or avoid paying their fair share. The hidden economy consists of those who fail to register for tax, and those who fail to declare a source of income. HM Revenue and Customs (HMRC) estimates that the 2014-15 tax gap due to the hidden economy stood at £6.2bn, which equates to 17% of the total tax gap. The tax gap is the difference between the receipts HMRC actually collects and the amount of tax that should be collected if all taxpayers complied with the letter and spirit of the law.
- 1.4 The UK has one of the smallest reported tax gaps in the world. HMRC remains committed to reducing it further, and as part of this, achieving a significant and sustained narrowing of the hidden economy tax gap. To accomplish this, we must make compliance the easy option for our customers. HMRC's approach to compliance is based on three principles:
 - **Promote** good compliance, making it easier for people to get things right.
 - **Prevent** non-compliance, preventing mistakes and stopping things from going wrong.
 - **Respond** to non-compliance, targeting our approach to tackling complex cases and deliberate cheats.

- 1.5 Hidden economy activity disadvantages compliant businesses. Tackling the hidden economy will ensure a level playing field for those who comply with their tax obligations. This means working to improve the ways in which our customers register for tax and report their income, helping them to get things right the first time. We will also make it increasingly difficult for businesses and individuals to enter the hidden economy, and robustly tackle those who continue not to pay the right amount of tax.
- 1.6 Those who operate in the hidden economy may also demonstrate non-compliance in areas of their business besides tax, which might include health and safety violations, failure to comply with employment rights for workers, and immigration offences. By tackling the hidden economy we can help to shrink the space for wider criminality and non-compliance to flourish. This reduces opportunities for businesses to profit from illegal workers and criminal activity, and so delivers wider benefits for society.

Details of the consultation

- 1.7 The consultation sought views on the principle of conditionality, which would involve making access to licences or services needed to trade conditional on tax registration.
- 1.8 Many of those operating within the hidden economy are individuals or businesses whose entire income is unknown to HMRC. A number of those will have taken a conscious decision not to meet their tax obligations. Few businesses can exist in a vacuum. Almost all require services from other businesses, and permissions and services from government, in order to trade. HMRC's aim is to make it the norm to register for tax. We will do this by making it as easy as possible to register, and as difficult as possible for non-compliant businesses to evade their responsibilities.
- 1.9 Introducing tax registration as a condition of access to some business services or licences would help to normalise tax registration and make it more difficult for businesses to continue trading in the hidden economy.
- 1.10 Conditionality is intended to tackle the hidden economy by building tax compliance into the process of doing business. This would support HMRC's efforts to promote tax compliance by helping customers to understand and easily comply with their tax obligations from the earliest opportunity.
- 1.11 Two parallel consultations on measures to tackle the hidden economy were launched alongside this one in August 2016. These demonstrate the breadth of options the government is considering to tackle the hidden economy tax gap. The government continues to explore a full range of options to promote compliance, prevent non-compliance and respond to hidden economy activity when it occurs. The additional consultations are:

- ‘*Tackling the hidden economy: extension of data-gathering powers to Money Service Businesses*’. At Autumn Statement 2016, the government confirmed its intention to proceed with this measure with legislation in Finance Bill 2017. The government’s response is available at: <https://www.gov.uk/government/consultations/tackling-the-hidden-economy-extension-of-data-gathering-powers-to-money-service-businesses>
- ‘*Tackling the hidden economy: sanctions*’. At Spring Budget 2017, the government announced that it will consider the design of a stronger ‘failure to notify’ hidden economy penalty which may take account of past behaviour. This will be delivered as part of the longer term HMRC Penalties Review. HMRC will also strengthen its monitoring of taxpayers previously found to be operating in the hidden economy, to keep them compliant. A summary of responses has been published alongside this document, available at: <https://www.gov.uk/government/consultations/tackling-the-hidden-economy-sanctions>

Responses to the consultation questions

1.12 This document sets out the questions asked in the consultation and provides an overview of the responses received. It follows the order of the consultation document. Some responses were not specifically attributed to any particular question so this document has tried to group the responses under the most relevant question.

Structure of the consultation response document

1.13 This consultation response document is presented in the following further sections:

- Section 2 sets out a summary of responses to the consultation together with the government’s overarching response.
- Section 3 summarises responses HMRC received to specific questions posed in the consultation document and presents the government’s response on each.
- Section 4 sets out the next steps for the policy.
- Annex A lists all organisations that responded to the consultation and/or met with HMRC to discuss it.

2. Summary of responses

Overview of responses

- 2.1 HMRC received 21 written responses to the consultation and met with 14 stakeholders to discuss it.
- 2.2 A list of the respondents to the consultation and organisations that attended meetings during the consultation period (excluding named individuals) can be found at Annex A.

Conditionality: general comments

- 2.3 Most responses were supportive of the government's efforts to tackle the hidden economy. Several responses underlined that the vast majority of businesses want to pay their fair share of taxes. They also highlighted that many of these businesses are strongly opposed to the unfair competitive advantage enjoyed by non-compliant firms. Hidden economy activity was seen by some respondents as often going hand-in-hand with failure to comply with other legal responsibilities, as well as failure to provide customers with an appropriate level of service.
- 2.4 The majority of responses agreed that HMRC should be focussing on new approaches to tackling the hidden economy, and recognised that conditionality could be an effective way to support compliance.
- 2.5 Equally, most responses were clear that any approach to conditionality must minimise burdens upon compliant businesses and providers of licences and business services. Some responses highlighted that a one-size-fits-all approach would be unlikely to work; conditionality is likely to be more or less effective depending on the licences or services to which it is applied. Several responses said that public-sector licences would be a good place to start to apply conditionality.
- 2.6 Views were mixed over how effective conditionality would be if applied to business services, such as financial or insurance services. Some were in favour of these proposals, whilst others felt this would impose disproportionate burdens upon service providers, and could have adverse consequences such as encouraging the non-compliant to bypass important services altogether.

Government response

- 2.7 The government is committed to tackling the hidden economy, and in doing so, supporting the majority of UK businesses by levelling the playing field between the compliant and non-compliant.
- 2.8 The government believes that conditionality would be an effective way to tackle the hidden economy if designed carefully and delivered proportionately. It is right that government considers new ways to draw businesses away from the hidden economy early in their lifecycle, whilst restricting opportunities to trade for those who seek to undercut the honest majority.
- 2.9 There are a range of ways in which conditionality could be applied across different sectors. The government aims to identify approaches which have the maximum positive effect upon those operating in the hidden economy, whilst minimising burdens on compliant customers, licensing bodies and service providers.
- 2.10 The government will seek to undertake further work with interested stakeholders and will explore options to trial conditionality through pilot activity.
- 2.11 Any future legislation to implement conditionality would be preceded by further policy development and consultation with those likely to be affected.
- 2.12 This announcement builds on progress that the government has already made to identify and take action against those who misuse online intermediaries and cash services offered by Money Service Businesses to hide sources of income from HMRC and operate in the hidden economy. In 2015, the government also invested in HMRC to fund more frontline investigators to step up their response to the hidden economy.

3. Responses to questions posed in the consultation document

Chapter 1: Introduction

- 3.1 Chapter 1 of the consultation explained the problems posed by the hidden economy and described HMRC's compliance approach. It explained how conditionality could align with this by introducing registration as a condition of access to some licences or business services.
- 3.2 It said that the way in which businesses register with HMRC will differ depending on a number of factors - for example, whether the company is set up as a sole trader, a limited company or a partnership. For a business, "registration for tax" may mean registering with HMRC for:
- Self Assessment, if the business is a new sole trader or the 'nominated partner' in a new self-employed partnership;
 - Corporation Tax, if establishing a new limited company;
 - PAYE for employers, if the business is taking on staff; or,
 - VAT as a new business or a business that is making supplies over the VAT threshold for the first time.

Question 1: Do the examples set out at paragraph 1.15 provide a good starting point to define 'tax registration' when thinking about conditionality? Are there any other requirements which should be included in this definition?

- 3.3 Most responses stated that, at a basic level, the examples capture the main requirements around tax registration.
- 3.4 One respondent highlighted that there could be some confusion between the concept of tax registration as described in the consultation and the requirement, set out in legislation, to notify HMRC of chargeability for tax. Similarly, a number of respondents stated that not everyone who might need to be registered under conditionality would be strictly required to do so under existing legislation.
- 3.5 One respondent felt that it can be complex for businesses to determine their tax-registration status, and the government would need to simplify registration requirements before conditionality could be implemented.
- 3.6 Another response proposed an alternative approach to conditionality, whereby the government would enrol everybody with a digital tax account

and allocate a reference number which could then be used as proof of registration when undertaking business transactions.

Government response

- 3.7 The government recognises the need to ensure that requirements around tax registration are as easy as possible to understand and follow.
- 3.8 HMRC's Making Tax Digital reforms aim to make the tax system more effective, more efficient and easier for customers. Tax registration and notification processes will be reviewed as part of that work and conditionality issues will be taken into account.

Chapter 2: Conditionality and the hidden economy

- 3.9 This chapter set out in more detail why conditionality could be an effective way to tackle the hidden economy.
- 3.10 Conditionality aims to prevent non-compliance early in the lifecycle of a business. It aims to influence the behaviours of businesses at the point of establishment, or when they hit a key milestone for tax purposes such as reaching the threshold for VAT registration. These are the points at which businesses are at risk of entering the hidden economy by failing to register for the correct taxes.

Question 2: What is your view on HMRC's assessment of how conditionality could tackle the hidden economy?

Question 3: Do you agree that conditionality could promote a cultural norm of tax registration?

- 3.11 Most respondents agreed that conditionality could be an effective way to tackle the hidden economy. A number of potential behavioural benefits were highlighted, including that conditionality could help to normalise tax registration and make it more difficult for businesses to continue trading in the hidden economy.
- 3.12 One response said that conditionality would work best if combined with existing approaches allowing consumers to access information to check the credentials of those who supply services.
- 3.13 A number of responses also raised practical points which would determine whether or not conditionality would be successful. In particular, several said that conditionality would impose new restrictions on approvals needed to trade, and those determined to operate in the hidden economy would most likely not comply. This could have the effect of diverting people

further away from licensing or other regulatory schemes and pushing them further into non-compliance.

- 3.14 Others felt that levels of regulatory compliance in some sectors are already low. Imposing new restrictions on licences in these areas would not affect those who deliberately operate in the hidden economy, since these groups would be unlikely to hold licences or other regulatory approvals in the first place.
- 3.15 One response also said that, whilst conditionality might cause more people to register, it wouldn't prevent them from evading tax by under-declaring their profits once registered.

Government response

- 3.16 The government believes that conditionality would be an effective way to tackle the hidden economy if designed carefully and delivered proportionately. The government intends to work collaboratively with a range of stakeholders in order to develop further policy proposals on conditionality.
- 3.17 The government agrees that a uniform approach to conditionality may not be successful. It will be important to consider the ways in which conditionality could be adopted within individual sectors and to understand where there may be unintended consequences.
- 3.18 The government recognises that there are also risks and obstacles to be addressed when developing conditionality. The government will carry out further work to identify how best to deal with these risks.
- 3.19 In this context, the government will also consider the value of alternative approaches to conditionality, such as one which does not require licence or service providers to verify customers at the point of application. This would involve licence or service providers collecting tax-registration data from customers at the point of application and passing this information to HMRC. This would help to promote tax registration whilst supporting HMRC in identifying those operating in the hidden economy and taking appropriate action.

Chapter 3: principles of conditionality

- 3.20 This chapter suggested that the following principles should guide the government when determining which licences or services should be subject to conditionality:

- a. Prioritise high-risk sectors: identify sectors that are disproportionately affected by the hidden economy or give rise to a large amount of self-reporting for tax purposes.
- b. Minimise new requirements on customers and service providers: identify licences, services or sectors where there are existing checks, and align with these where possible.
- c. Target conditionality on ‘gatekeepers’: target measures on providers of essential business services to ensure the greatest impact.
- d. Reach large numbers of businesses in the hidden economy: identify licences or services which reach a significant number of businesses operating in the hidden economy.
- e. Seek wider benefits: identify ways in which conditionality could have wider benefits for businesses or third parties.

Question 4: Do you agree with the principles set out at paragraph 3.2? Are there any additional or alternative principles which should apply?

3.21 Most respondents supported the proposed principles for selecting licences and services to which conditionality could be applied. The majority of responses endorsed the view that any burdens on licence or service providers must be kept to a minimum.

3.22 Some respondents also said that conditionality must be simple and easy-to-use for customers. One respondent suggested a further principle to guide the government’s decision on this aspect of conditionality: achieving buy-in from those affected.

Government response

3.23 The government has noted that respondents generally endorsed the principles for determining which licences or services should be covered by conditionality. It will apply these criteria when developing further policy proposals.

3.24 The government will also take into consideration the additional criteria suggested by respondents.

Applying tax-registration conditions to public sector licences

3.25 Chapter 3 of the consultation also set out how conditionality could be applied to licences which are needed to do business in particular sectors, such as those issued by public or professional bodies. It described how this could be done in accordance with the principles outlined above.

3.26 This chapter described how tax registration could be made a condition of access to licences such as those issued by local authorities for private hire vehicles, trading, scrap metal, environmental health, planning, or property lettings. It could also include licences issued by other government departments or by trade and representative bodies for specific sectors.

Question 5: What are your views of the merits or drawbacks of applying tax-registration conditions to public sector licences, such as those described in this chapter?

Question 6: Which public sector licences should HMRC consider in developing policy proposals for conditionality?

Question 7: Can you describe how applying conditionality to public sector licences might impact upon compliant business, and how might HMRC avoid placing burdens upon those businesses? Please provide details of both the one-off and ongoing costs.

3.27 Most respondents felt that applying conditionality to some public sector licences would be a good way to tackle the hidden economy. Several felt that public sector licences would be a sensible starting point for conditionality. One highlighted that licences issued by local authorities would be an appropriate vehicle because of clear links between public-accountability and paying tax.

3.28 Several respondents said that conditionality would work less in some licenced sectors, where businesses operating in the hidden economy are also likely to operate outside of other systems of regulation. Applying conditionality to these requirements would simply reduce compliance in other areas (because it would give those leaning towards non-compliance an additional motivation to avoid those licences altogether) which would be detrimental to both customers and local communities.

3.29 A couple of respondents recognised that there is likely to be some overlap between hidden economy activity and non-compliance in other sectors. Therefore, withholding licence applications where applicants are not correctly tax registered may help to promote compliance elsewhere.

3.30 One response suggested that conditionality could be introduced using a similar approach to criminal records background checks that are already a condition of some licensing regimes. This should be done in a way that enables public bodies to quickly check a registration status without having to carry out more rigorous checks into an applicant's background.

3.31 In describing which public-sector licences should be considered, a number of respondents referred back to the principles outlined above, suggesting

these should be the guiding factors. Several said that HMRC should focus on areas displaying the highest levels of tax evasion.

3.32 Several respondents gave specific examples of sectors or licensing regimes where they believe regulatory abuse exists, but others acknowledged the wide variety of choices and suggested the government should act on its own discretion when identifying licences.

3.33 In relation to burdens, some respondents felt that, if delivered effectively, conditionality could be incorporated into existing regimes with minimal additional work. A number of others felt that there was a careful balance to be struck between the benefits from tackling the hidden economy and the burdens to both licensing bodies and applicants for licences.

3.34 Several highlighted the potential burdens which conditionality would place upon licensing bodies - many of whom were felt to be operating under resource constraints. One said that conditionality could impose costs on licensing bodies and these costs would be likely to be passed on to licence holders (for example, through increased fees for administering licensing schemes).

3.35 One response referred to the existing burdens placed on applicants for licences, referring to lengthy forms which would need to be made longer if conditionality were introduced.

3.36 A number of responses provided suggestions for how HMRC could mitigate burdens on compliant customers as well as licences or service providers. This included the view that conditionality must avoid duplication for those applying for licences or services (for example, by streamlining application processes to ensure that applicants do not have to undergo multiple checks for related licences or services). Others said that HMRC should focus its efforts on sectors or areas of businesses where there is known to be a high risk from the hidden economy.

3.37 Others suggested that businesses subject to conditionality requirements would need to be properly supported by HMRC. This could include support from HMRC advisors, as well as online help services.

Government response

3.38 The government believes there is a strong case that some public sector licences or regulatory approvals should be subject to conditionality. The public has a right to expect that those licensed to provide important services are contributing their fair share of taxes. Businesses also have a right to expect that those directly competing with them are doing so on fair terms and not undercutting them by evading taxes.

- 3.39 The government recognises and endorses the view of most respondents that any approach to conditionality must minimise burdens upon both applicants for licences and licensing bodies. For example, conditionality should not impose undue burdens on licensing bodies by requiring them to undertake extensive checks into an individual's tax-registration status.
- 3.40 Using the principles highlighted in chapter 2 of the consultation document, the government will work to identify the most suitable licenses which could be made conditional upon tax registration across different sectors.
- 2.13 At the same time, the government will progress work to identify, and consider ways to minimise, burdens which conditionality might place upon both applicants for licences and licensing bodies. The government will seek to undertake further work with interested stakeholders and will explore options to trial conditionality through pilot activity.
- 3.41 Any future legislation to implement conditionality would be preceded by further policy development and consultation with those likely to be affected and a full assessment of impacts.

Applying conditionality to business services

- 3.42 Chapter 3 of the consultation also set out how conditionality could be applied to business services, either through regulation or voluntary agreement with the service provider.
- 3.43 This could include applying conditionality to business insurance services, business bank accounts, rental of premises, loans, merchant acquirer accounts or accounts with suppliers or utilities. This chapter described how conditionality could be applied to some of these services in accordance with the principles set out earlier in the consultation.

Question 8: What are your views of the merits or drawbacks of applying conditionality to business services?

Question 9: Which services or sectors should HMRC consider in developing policy proposals for business services conditionality?

Question 10: Can you describe how applying conditionality to business services might impact upon compliant business, and how might potential burdens upon those businesses be avoided? Please provide details of the expected one-off and ongoing costs.

- 3.44 Views were mixed on the merits or drawbacks of applying conditionality to business services. Several respondents were in favour of these proposals, suggesting that they would be an effective way to increase tax compliance and level the playing field for compliant businesses. Others felt this

approach might hold wider benefits - for example, by assuring customers and service providers that those operating across supply chains are properly registered.

- 3.45 One respondent suggested that conditionality could be incorporated into credit rating checks, and suggested this approach would help to minimise any burdens for compliant businesses and service providers. Others felt that whilst conditionality might lead to some degree of increased burdens, this would not outweigh the benefits.
- 3.46 One respondent said that the government should look at intermediaries who provide platforms to link customers with providers of services in sectors such as tourism. They referred to anecdotal evidence to suggest that, in some sectors, businesses which use intermediaries to connect with customers may be susceptible to hidden economy activity.
- 3.47 Others said that the government should consider sectors such as banking, credit card processing or business insurance; and one response suggested looking at sectors which facilitate cash-based services.
- 3.48 However, a number of respondents felt that business services – and particularly banking, financial services and insurance services – were unsuitable for conditionality. Several felt that applying conditionality in these areas might create more opportunity for divergent or non-compliant behaviour. They said that, often, business services can be substituted for proxy services (for example some traders may operate personal bank accounts instead of business bank accounts). Other services, such as business insurance, may be bypassed altogether.
- 3.49 Several, therefore, felt that conditionality in these areas would not create barriers to the market but may lead to more people using business services incorrectly or avoiding them altogether. This would be problematic for service providers and businesses, might reduce service standards for customers and could have detrimental economic impacts.
- 3.50 A number of respondents provided feedback on the potential business impacts. Whilst some felt potential burdens would be manageable others felt there were a number of specific impacts to be considered both for providers of businesses services and their customers.
- 3.51 In relation to banking, one response highlighted existing checks that banks are required by government to carry out (to comply with legislation or international agreements). They described how such changes – even those that do not lead to significant changes for customers – can add cost and complexity to the processes employed by banks to assure customers.
- 3.52 Two respondents highlighted what they saw as the complexity which would be faced by service providers if required to carry out checks to

ensure that customers are correctly tax registered. They said that, by law, tax-registration is not always required of business customers (for example, start-up businesses which have not yet begun trading may not need to be registered). Similarly, the tax-registration status of other customers, such as non-profit organisations or charities, will not always be simple. This would make it very difficult for service providers to decide who should be given access to services and who should be denied.

3.53 One response suggested that requiring service providers to verify their customers upfront, would lead to increased business costs. Customers could end up paying for these indirectly.

3.54 A number of responses said that a proportionate approach to conditionality for business services was needed. This might include further work to identify how checks would be applied and how providers would deal with these. One respondent suggested that any proposals in this area should be subject to a full impact assessment, weighing the costs and burdens to service providers and customers against the benefits to HMRC and wider society.

Government response

3.55 The government believes there are some good reasons for applying forms of conditionality to some business services. If applied in a proportionate way, this approach could help to reach a large population and may be an effective way to promote new behaviours around tax registration.

3.56 However, the government also recognises the concerns highlighted by a number of respondents, including the potential unintended consequences of applying conditionality to some business services.

3.57 The government agrees that the benefits from this approach would need to be carefully weighed against the costs and burdens to service providers and businesses.

3.58 It would be particularly important to ensure that any burdens upon service providers and consumers are kept to a minimum.

3.59 The government believes further work is needed to assess the benefits and drawbacks of applying conditionality to business services. The government will continue to work closely with professional and representative bodies and other stakeholders who are interested in this policy.

3.60 Any future legislation to implement conditionality would be preceded by further policy development and consultation with those likely to be affected and a full assessment of impacts.

Chapter 4: demonstrating tax registration

3.61 This chapter described how conditionality would require a method to verify a customer's tax registration status in order for them to gain access to relevant licences or services. It suggested this should:

- a) Be simple and easy to use to mitigate potential burdens upon businesses;
- b) Ensure customer information is secure and protected; and,
- c) Ensure customers can verify their tax registration status with a high degree of accuracy.

Question 11: Do you agree that these principles should underpin any method for demonstrating tax registration? Are there any additional or alternative principles which should apply?

3.62 Most respondents agreed with the proposed principles. A number of responses said that any method to verify tax registration must be simple and easy-to-use. Others said there should be no unnecessary delays in the processing of applications for licences or services. One response suggested the avoidance of administrative burdens should be explicitly included as an extra principle.

3.63 Another response suggested that HMRC should develop a simple system for establishing tax status through Making Tax Digital.

3.64 In addition, a number of responses suggested that HMRC would need to issue appropriate guidance and communications to ensure that customers are aware of their responsibilities and obligations in relation to conditionality.

3.65 Several respondents welcomed the proposed focus upon data security and privacy of customers' information. One response also suggested that HMRC should give consideration to Principle 7 of the Data Protection Act, which relates to security and the prevention the personal data being accidentally or deliberately compromised.

3.66 One response also commented that it is essential that the verification process is secure and resilient against fraud.

3.67 Other responses referred to the need for accuracy and noted the challenges involved in this respect – for example, matching large data sets on an automated basis could lead to errors if not properly managed. It would be necessary for any system of conditionality to be able to cope with potential mismatches, so that compliant businesses are not incorrectly rejected when applying for licences.

Government response

- 3.68 The government notes that most respondents agreed with these principles. It will apply these when developing further policy proposals.
- 3.69 The government agrees that any changes to introduce conditionality would need to be accompanied by appropriate guidance and communications for all of those affected.

Customer verification: case studies

- 3.70 Chapter 4 of the consultation also described how some organisations apply processes to verify a customer's compliance record or registration status, in a non-tax context. In some cases, these processes are used to demonstrate customers' eligibility to access licences or services. Three case studies were included to show ways in which other organisations verify customers, and views were sought over whether similar approaches could work for conditionality.
- 3.71 The first case study described processes for providing credit checks. The second described a government service for checking drivers' licence information. The third described due diligence checks carried out under Money Laundering Regulations.

Question 12: Do these case studies highlight any relevant lessons for HMRC in developing a method for demonstrating tax compliance? Are there any particular risks or pitfalls to be avoided?

- 3.72 Those that provided a response to this question felt that the first case study would be costly and difficult to achieve if replicated for conditionality, since it would require HMRC to develop a database which would be accessible to third parties. This would also require the transfer of large amounts of sensitive taxpayer data which would carry security and privacy risks.
- 3.73 Views on the second case study were more mixed. One response said this approach would have the advantage of limiting the amount of customer data available to third party licence or service providers. Others noted that it would be important that any customer information provided to third party licence or service providers did not serve as an identifier for that customer's records held with HMRC.
- 3.74 Another respondent said that the second and third case studies might be less suitable, since it will not always be clear, at a given point in time, whether customers are required to be registered or not. Therefore, it may

not always be possible for this type of system to give a clear indication of a customer's tax-registration status.

- 3.75 One respondent felt that the third case study, if adopted for conditionality, could be burdensome. This is because checks for anti-money laundering supervision require documents to be kept for considerable lengths of time. An approach which is simpler for customers and third parties to use would be more suitable.

Government response

- 3.76 Respondents have raised a number of important points about how these case studies might inform future proposals on conditionality.

- 3.77 The government will consider this feedback as part of work to develop further proposals on conditionality.

Chapter 5: other issues

- 3.78 This chapter described other issues which HMRC believes should be considered as part of any policy to introduce conditionality, as set out in the following questions.

Question 13: How should HMRC or those who grant access to licences or services deal with cases in which tax registration is not yet available (for example, those who are applying for a licence in advance of setting up their business)?

- 3.79 Several respondents felt that the best way to approach this issue would be through introducing 'grace periods'. This would involve third parties granting access to licences or services, including in cases where customers are not yet required to be registered. Information relating to these customers would be passed to HMRC at the point of application. After a defined period, tax-registration requirements would then be enforced as a condition of the relevant licence or service.
- 3.80 Others pointed out that it would be difficult for service providers to quickly identify which customers should be exempted from registration requirements.
- 3.81 One respondent suggested that HMRC should issue 'new starter registrations' that would be valid for a limited period. The validity of licences should then be limited to the same period, requiring customers to reapply once they are registered.

Government response

3.82 Respondents suggested several options to deal with cases where tax-registration is not yet available. The government will consider these further. In particular, it will consider these issues in the context of changes to the tax administration framework being developed as part of Making Tax Digital.

3.83 The government recognises that it is important that start-up or other compliant businesses are not hindered from accessing approvals needed to trade. This will be a key principle in the development of any further proposals on conditionality.

Question 14: Are there any specific impacts on small and micro businesses to be considered? If so, please provide details of the anticipated one-off and on-going costs and burdens. How might any negative impacts be mitigated?

3.84 Responses to this question highlighted that small and micro businesses are one of the groups most likely to be affected by unfair competition from unregistered businesses operating in the hidden economy. Similarly, others said that these groups are at the highest risk of unaddressed non-compliance.

3.85 A number of responses said that small and micro businesses may be disproportionately affected by conditionality requirements. This is because they often have fewer administrative resources to deal with additional burdens.

3.86 A number of responses suggested that, in order to properly understand the impacts upon small and micro businesses, the government should carry out further analysis to identify which taxes customers would need to be registered for in order to access particular licences. This should include a round of user-testing as part of a rigorous impact assessment, in order to understand any potential administrative burdens and how these can be mitigated.

3.87 Another response underlined the fact that access to some licences is fundamental to trade for many small and micro businesses. Withholding these licences could cause problems for some businesses – it could, for example, prevent them from obtaining other key services such as property or finance.

Government response

3.88 The government agrees that small and micro businesses are one of the groups most likely to be affected by conditionality. It is, therefore, important that any burdens affecting this group are properly identified and addressed.

3.89 The government agrees that further work and analysis is required to identify and mitigate any undesirable effects which conditionality could have upon different business customers – including small and micro businesses.

3.90 Any legislative changes to introduce conditionality would be preceded by further consultation with interested parties and a full assessment of impacts.

Question 15: Unless already covered in your responses to other questions within this document, please explain how your business would be impacted by this proposal, including additional administrative burdens and costs?

3.91 This question was broadly addressed through responses to other questions throughout the consultation document. A range of relevant views were provided – and these are captured in the preceding sections.

4. Next steps

- 4.1 The government is grateful for the range of views, evidence and proposals made in response to this consultation.
- 4.2 The government will now work collaboratively with a range of stakeholders in order to develop further policy proposals on conditionality.
- 4.3 This will include work with providers of licences and services, as well as businesses, individuals and their representatives to identify the sectors in which conditionality could be most effective.
- 4.4 In doing so, the government aims to identify an approach which has the maximum positive effect upon those operating in the hidden economy, whilst minimising burdens upon compliant customers, licensing bodies and service providers.
- 4.5 Any legislation to implement conditionality will be preceded by further policy development, testing and consultation with those likely to be affected.

Annex A: List of stakeholders consulted

- ACCA
- Administrative Burdens Advisory Board (ABAB)
- Association of Accounting Technicians (AAT)
- Association of Chartered Certified Accountants (ACCA)
- Association of Convenience Stores (ACS)
- Association of British Insurers (ABI)
- BDO LLP
- British Bankers' Association (BBA)
- British Hospitality Association (BHA)
- Chartered Institute of Payroll Professionals (CIPP)
- Chartered Institute of Taxation (CIOT)
- Federation of Master Builders (FMB)
- Federation of Small Businesses (FSB)
- Institute of Certified Bookkeepers
- Information Commissioner's Office
- Institute of Chartered Accountants in England and Wales (ICAEW)
- International Association of Bookkeepers
- Local Government Association (LGA)
- Low Incomes Tax Reform Group of the Chartered Institute of Taxation
- The 100 Group
- Tourism Alliance
- Tyre Industry Federation
- Whitefield Tax Ltd
- Wine and Spirit Trade Association (WSTA)