

1. Discussion Document on HMRCs Anti-Money Laundering Supervision fees

- 1.1 HMRC would like to invite views on the way it charges fees to the businesses it supervises under the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017.
- 1.2 In this document, HMRC sets out the background information and asks you a number of specific questions about fees. We would be grateful if you could send us your views by 28 September 2018, when this discussion document will close for comment.
- 1.3 It would help us when you respond if you include whether you're responding as an individual, business, trade body or something else and which sector you work in.

How to respond

- 1.4 You can reply by e-mail to: aml.feesreview@hmrc.gsi.gov.uk
- 1.5 Alternatively, you can write to us at:

HMRC AMLS
8th Floor Euston Tower
286 Euston Road
London
SW1 3UL

Purpose of this discussion document

- 1.6 The Government is committed to enhancing further its response to the threat of money laundering and terrorist financing. The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 ("MLR 2017") strengthened the UK regime and placed additional requirements on HMRC (and other) supervisors. Alongside this, the Government is committed to HMRC strengthening its approach to anti-money laundering supervision and taking a more robust approach to tackling non-compliance with the regulations.
- 1.7 It is Government policy that businesses should pay for the costs of supervision, rather than this being funded through general taxation. In order to ensure that the fees it charges remain appropriate, HMRC periodically reviews the fees it charges businesses for anti-money laundering supervision. Our current fee structure charges a registration and renewal fee of £130 per premises. This fee was raised with effect from 1 December 2017 from the £115 charged previously, reflecting the increased costs to HMRC of supervision since the previous fee changes in 2015. Other fees are also charged for specific activity.
- 1.8 Because of the new requirements on HMRC from the MLR 2017 and the drive to take a more robust approach to supervision, HMRC needs to perform a review to ensure that we

can continue to effectively support businesses and meet our regulatory supervisory obligations.

1.9 HMRC is looking at how the fees are structured and the amount it charges you. We aim to treat businesses fairly and keep fees simple, and as low as possible, while meeting the increased costs of our supervisory activity.

1.10 Below you will find an overview of the current fees structure. HMRC invites your views on the three options for setting fees from 1 December 2018 and two additional measures detailed in this document.

2. Background

2.1 The MLR 2017 allow HMRC to charge fees to applicants for registration and to the businesses we supervise, to meet any expenses we reasonably incur in providing supervision. Total fees income must not exceed those costs.

2.2 “Reasonably incurred” expenses include costs of:

- maintaining a register of supervised businesses
- supervision and monitoring of businesses under the MLR
- help, guidance and advice to businesses
- work with other supervisors and law enforcement agencies in the UK and overseas.

What does your fee cover?

2.3 The fee enables us to cover the costs of carrying out our role as the supervisors of around 27,000 businesses in seven business sectors:

- accountancy service providers who aren’t supervised by a professional body
- estate agency businesses who aren’t supervised by a professional body¹
- money service businesses who aren’t supervised by the Financial Conduct Authority
- high value dealers
- trust or company service providers who aren’t supervised by the Financial Conduct Authority or a professional body
- bill payment service providers who aren’t supervised by the Financial Conduct Authority
- telecommunications and digital IT payment service providers who aren’t supervised by the Financial Conduct Authority.

2.4 We are required to recover the costs of supervising these businesses from the fees you pay and not from general taxation. We are not allowed to charge more than we expect the overall cost will be.

2.5 Our aim is to help businesses deal with the risks of being exploited by criminals to launder the proceeds of crime or to finance terrorism. The fee you pay funds a range of different activities:

- registering new businesses, and maintaining the integrity of those registers

¹ Currently HMRC is the only supervisor for estate agency businesses

- carrying out fit & proper and approvals tests
- carrying out risk assessments and keeping abreast of market developments
- producing guidance to help you understand the risks in your sector, comply with your legal obligations and raise standards across the industries it supervises
- compliance activity such as visits or calls to your business. We aim to help businesses stay on the right side of the law and challenge those with poor systems and controls
- working with intelligence and enforcement agencies to close down criminal business models.

Our current fees structure

2.6 HMRC currently charges four types of fee to registered businesses:

- A £130 premises registration fee, renewed annually for each premises a business operates from. This fee is due when an application is received and on the same date each year after that. A business that is refused registration has this fee refunded.
- A £100 application fee. This is a one-off fee to cover the cost of the administration work for new businesses, it is due the first time a business applies to register with HMRC and is not refundable.
- A £100 fit & proper persons test fee for each director, beneficial owner, nominated officer, senior manager and any other person exercising effective control of the business of a money service business or trust or company service provider. This fee is not refundable.
- A £40 approval test fee for each director, beneficial owner, nominated officer, senior manager and any other person exercising effective control of the business of an accountancy service provider, estate agency business or high value dealer. This fee is not refundable.
- A £1,500 penalty administration charge when we issue a business with a compliance penalty.
- A £350 penalty administration charge when we issue a business with a registration penalty.

2.7 The premises registration is an approximation for the size of the business, since historically, the more premises you have, the more it costs us to administer your registration and ensure your compliance.

2.8 Registration fees accounted for 95.4% of HMRC's fee income in 2016-17², compared to around 1.1% generated by fit & proper persons test fees and 3.5% generated by one off registration administration fees.

3. Fees structure options

3.1 We have looked carefully at our costs for 2018-19 and 2019-20 in order to ensure the fee structure is consistent, keeps fees proportionate to work done as a supervisor, and reflects costs where they fall. We've considered other alternatives to using the number of premises as an approximation of size

² The charge for the approvals test was introduced in November 2017, so did not form part of 2016-17 income.

- 3.2 In reviewing our fees, HMRC has taken into account the following principles:
- HMRC cannot charge different fees to different businesses for the same service
 - a simple fees structure provides greater certainty for registered businesses
 - a more complex fees structure will require more information from businesses, increasing the administrative burden for HMRC and for you.
- 3.3 We have identified three fees model options to cover our expected costs from 2018-2020. We have also identified two additional proposals, which place more of the costs on the businesses that incur them. Whichever fees model option we pursue, we believe there is merit in the “additional proposals” below:
- a late payment charge to ensure that those businesses who do not pay on time meet the associated administration costs
 - a fit and proper re-testing fee rather than this being subsumed in the fees that all businesses pay.
- 3.4 In order to meet the additional legal obligations on us and further strengthen our supervision, HMRC needs to recruit a significant number of new staff. We anticipate that the overall income derived from fees will ultimately need to increase by around 80% to 100%, but the level of fee increases would vary for different businesses with each of the different options.
- 3.5 We intend to introduce a revised fee structure from December 2018, although the increases may be phased in over more than one year.

Option 1

- 3.6 Retain the current fees structure, but increase the level of fees significantly.

Q1. Do you think the current fees model is a reasonable way of charging businesses to cover our costs?

Option 2

- 3.7 Alter the fee structure to no longer use the number of premises.
- 3.8 Charge a two part fee, made of a flat fee of £100 per business plus a turnover based fee.
- 3.9 The turnover based part of the fee will be a small percentage (e.g. 0.03%) of a business' turnover. Businesses with a turnover less than £20,000 will not pay the additional turnover based fee. For example, if the rate were set at 0.025%, a business with a turnover of £500,000 would pay the £100 flat fee + a further £125 (£500,000 x 0.025%) for a total of £225.
- 3.10 For the purpose of calculating the fee, the turnover of a business will be considered to be:
- the throughput for money service businesses

- the gross income for estate agency businesses, trust or company service providers and accountancy service providers
- the relevant turnover for high value dealers (i.e. the amount of cash accepted and paid out in high value payments).

Q2. Do you think this method of calculating fees is a reasonable way of charging businesses to cover our costs?

Q3. Are you content with the method of calculating turnover above or can you suggest any better methods?

Q4. Would you be willing and able to provide details of your businesses turnover using the above definitions to allow HMRC to calculate your fee?

Option 3

3.11 Retain the current fees approach, of charging annually for each premises a business operates from, but with a scaling fee per premises. The premises fee will increase with the number of premises a business registers with HMRC.

3.12 There are two ways this could be calculated. The business could pay a different rate for each charging tier or moving up to the next tier would mean the business paid the highest rate for all of its premises. The former approach avoids creating cliff edges, but the latter would be more straightforward to work out for businesses with large numbers of premises.

3.13 An example of how the groupings could look is set out in the table below.

| Number of premises |
|--------------------|
| 1 |
| 2-10 |
| 11-50 |
| 51-500 |
| 501-5000 |
| 5001+ |

Q5. Do you think a scaling premises fee is a reasonable way of charging businesses for supervision?

Q6. If you have a large number of premises, are you concerned this approach would be too complex if there is a different fee for premises in each tier?

Additional measures

Late renewal administration charge

3.14 We intend to charge businesses that pay their annual registration fee late, an administration fee for the extra work required to collect the payment.

3.15 We've considered three options for how to charge this late renewal administration fee:

- a flat fee of £100
- a fee of 5 per cent of the registration fee, subject to a minimum of £50
- an escalating fee based on the lateness of the payment.

Q7. Do you agree that an administration fee for late payment should be introduced?

Q8. Which method of charging for this late administration fee do you think HMRC should introduce and what level do you think would be appropriate?

Fit and proper top up fee

3.16 We intend to charge businesses for the re-testing work that HMRC does on fit and proper persons.

3.17 We currently re-test people that have fit and proper status on a risk sensitive basis. We are working towards a new re-testing scheme where everyone who has fit and proper status is re-tested on a risk sensitive basis and at least every five years.

3.18 To avoid tipping people off when we re-test them, we intend to introduce an annual charge at one fifth of the fit and proper test fee, per fit and proper person in the business. At the moment, this would be £20.

Q9. Do you think it is right to charge the fee for this work only to those who have fit and proper persons instead of accounting for it through the normal registration fees?

Q10. Do you think this is the best way to charge this fee? If not, please tell us what you think would be better.

4. Additional discussion questions

Q11. Are you planning any changes in your business model for the future that you think HMRC should be aware of when planning our future fees structure?

Q12. Which is your preferred option for charging for supervision or would you prefer to continue with the current method but with an increased fee?

Q13. Do you have any other comments that you think we should know about when considering the fees structure?

5. Next steps

5.1 HMRC will consider all your responses to these questions and publish a summary of responses later this year.

5.2 Thank you for providing your views and helping us to improve the service HMRC provides.