



HM Revenue
& Customs

Anti-money laundering supervision: discussion about fees

Summary of Responses

2 April 2019

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1. Introduction

HM Revenue and Customs (HMRC) published a discussion document on 20 August 2018: *'Anti-money laundering supervision: discussion about fees'* about the way we charge fees to the businesses we supervise for anti-money laundering.

The consultation closed on 28 September 2018. This document summarises the responses we received, and the decision we have reached on how to charge fees from 1 May 2019.

We would like to thank all of the many stakeholders and businesses who have taken the time to respond.

Background

Regulation 102 of the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (the MLR) allows HMRC to charge fees to the businesses it supervises to carry out its supervisory activity. These costs are not allowed to be met from general taxation.

The fees HMRC charges must not exceed what HMRC considers will enable them to carry out their functions under the MLR.

These functions include the costs of: the registration system, supervision of businesses, help and guidance, advice to businesses, and work with other supervisors and law enforcement agencies.

HMRC supervises around 23,000 businesses across seven business sectors for anti-money laundering. These are:

- accountancy service providers (ASPs) who aren't supervised by a professional body
- estate agency businesses (EABs) who aren't supervised by a professional body
- high value dealers (HVDs)
- money service businesses (MSBs) who aren't supervised by the Financial Conduct Authority
- trust or company service providers (TCSPs) who aren't supervised by the Financial Conduct Authority or a professional body
- bill payment service providers (BPSPs) who aren't supervised by the Financial Conduct Authority
- telecommunications and digital IT payment service providers (ITPSPs) who aren't supervised by the Financial Conduct Authority.

The Government is committed to further enhancing its response to the threat of money laundering and terrorist financing and the MLR 2017 further strengthened that regime. The Government is also committed to HMRC strengthening its approach to anti-money laundering supervision and taking a more robust approach to tackling non-compliance with the MLR.

Because of the new requirements of the MLR on HMRC, as well as the need to take a more robust approach to supervision, HMRC needs to increase its income from around £10m to around £18-20m.

Because of the changing landscape of supervision, with more businesses moving online and reducing the number of physical premises they operate from, we considered the structure of the fees we charge you.

Method and detail

HMRC emailed all the businesses we supervise for whom we have email addresses on 21 August 2018. The email included a link to the discussion document publicly available on GOV.UK and invited their views. Responses were invited by email or letter. We sent a second, reminder email, on 18 September.

Three options were outlined from the estimate of costs that would enable HMRC to meet our supervisory obligations under the MLR as well as increase our supervisory activity to take a more robust approach.

The three options we asked about were:

- Option 1
 - Retain the current fee structure, but increase the level of the fee.
- Option 2
 - Use a small, flat fee, plus a percentage of the businesses turnover. Businesses with small turnover (less than £20,000) would be exempt from the turnover part of the fee.
- Option 3
 - A per premises fee that escalates with the number of premises.

We also asked your opinion on two additional measures:

- Late renewal charge
 - A charge for businesses that do not renew their registration on time to cover the cost of administration.
- Fit and proper top up fee
 - A charge for businesses that have fit and proper persons, to cover the cost of re-testing them on a risk-sensitive basis, at least once every five years.

2. Responses

'Anti-money laundering supervision: discussion about fees' sought views on the method HMRC uses to calculate the fees paid by supervised businesses.

In particular, the discussion document invited views on three proposed options, as well as two additional measures.

In total there were 386 responses to the document (equivalent to less than 2% of our supervised population): 382 by email and 4 in writing. Respondents came from a range of sectors, and a range of industry and business backgrounds. These are set out in Tables 1 and 2.

Table 1: Respondents by Sector

Respondents by sector	Number of respondents	Percent of respondents
ASP	226	58.5%
EAB	86	22.3%
HVD	4	1.0%
MSB	26	6.7%
TCSP	17	4.4%
Other	0	0.0%
None	27	7.0%

Those who did not include which sector they work in within their response were also classified as "none".

Table 2: Respondents by type

Respondents by type	Number of respondents	Percent of respondents
Individual/Sole Trader	240	62.3%
Business	136	35.3%
Trade body	9	2.3%
Other	0	0.0%

General responses

The largest group of respondents were in favour of Option 2, and a quarter did not express any preference. The responses by option are set out in table 3 below:

Table 3: Responses by option

Preferred Option	Number of respondents	Percent of respondents
Option 1	67	17.4%
Option 2	166	43.0%
Option 3	16	4.1%
Combination	2	0.5%
Other	35	9.1%
None	100	25.9%

In relation to the additional measures, the largest group did not respond, but of those that did respond, most expressed a view that we should introduce a late renewal fee, this is shown in table 4.

Table 4: Responses on the late renewal fee

Responses on the late renewal fee	Number of respondents	Percent of respondents
Yes	126	32.6%
Yes, but with safeguards	53	9.1%
No	34	8.8%
Other	0	0%
No response	173	44.8%

Again, the largest group of respondents expressed no view with regard to the fit and proper top-up fee, this is shown in table 5. Around a third of those that responded felt that HMRCs option to charge £20 per year per person was reasonable, with others taking a view that HMRC should include this in the normal registration fees.

Table 5: Responses on the fit and proper top-up fee

Responses on the fit and proper top-up fee	Number of respondents	Percent of respondents
Charge £20 per year	110	28.5%
Charge when the test is done	8	2.1%
Recover this through normal fees	43	11.1%
Other	18	4.7%
Don't charge this fee	22	5.7%
No response	185	47.9%

Responses to each discussion question

Question 1 asked: *Do you think the current fees model is a reasonable way of charging businesses to cover our costs?*

There were 236 responses to this question. 83 respondents (35%) said yes, 149 respondents (63%) said no, and 4 respondents (2%) had other responses.

Many respondents felt that this system was not fair on the smallest businesses, as a significant increase would take a large portion of their income. Some respondents felt that this didn't reflect the size of the business, citing both online business models and large office blocks as contributors to the inaccuracy.

Many respondents felt that the current model was simple and already well understood, which would limit mistakes. A number of respondents felt the current method would minimise the costs associated with the other models for both themselves and HMRC.

A few respondents raised the issue of online business models. HMRC understands this is a relatively small number of businesses and doesn't expect to see a vast increase in the number of these businesses in the future.

Question 2 asked: *Do you think this method of calculating fees (a flat fee, plus a small percentage of turnover) is a reasonable way of charging businesses to cover our costs?*

There were 242 responses to this question. 190 respondents (79%) said yes, 50 respondents (21%) said no, and 2 respondents (1%) had other responses.

Many respondents said that this was fairer to small or micro-businesses as well as new start-up businesses. They also said that this would spread the risk of supervision more fairly.

Some respondents said that this better reflects the amount of money that is potentially exposed to money laundering as well as the size of the business.

Some respondents said that this would seriously affect their consideration of agents, as some agents are not as profitable as others and may lead them to withdraw from some, more rural areas.

A number of respondents said that this would not be a good method, as it would unfairly impact their business, because of high turnover, low profit activity.

A few respondents said that small and micro businesses income is more likely to fluctuate and this could compound financial issues.

Question 3 asked: *Are you content with the method of calculating turnover above or can you suggest any better methods?*

There were 192 responses to this question. Respondents were generally content with the methods of calculation proposed by HMRC.

A number of respondents were concerned that only part of their work was relevant and that their non-regulated activity should not be included in the calculation of turnover.

A few respondents said that the terms were unclear and would need further consultation and guidance to improve.

Many MSB respondents said that this had the potential to seriously affect their business. They said the method put forward by HMRC was unreasonable and would amount to a large part of their income, as profit margins on this work was particularly low.

Question 4 asked: *Would you be willing and able to provide details of your businesses turnover using the above definitions to allow HMRC to calculate your fee?*

There were 205 responses to this question. Respondents were generally willing to provide this data to HMRC. Many respondents raised that HMRC would already have the data available, from self-assessment or tax returns.

Many of the respondents that said yes said that this was because it would reduce their payment for supervision and would be fairer on small businesses.

Many respondents felt that HMRC needed to make guidance available to explain how to calculate the turnover. A number also felt that this would increase their costs as they would need to pay for someone to do this for them.

Many respondents raised issues around how HMRC would verify this figure of turnover, particularly if they performed other, non-regulated activity. They raised that this could lead to relevant persons falsifying their application to HMRC to reduce the fee they paid.

Many respondents also raised issues about when this would be calculated. They raised concerns that changes in the market could have significant impact on their fees, which may leave HMRC under or over funded.

A number of respondents expressed concerns that where they perform other, non-regulated activity, this should only include their regulated turnover.

Question 5 asked: *Do you think a scaling premises fee is a reasonable way of charging businesses for supervision?*

There were 197 responses to this question. 95 respondents (48%) said yes, 97 respondents (49%) said no, and 5 respondents (3%) had other responses.

Many respondents said that this still didn't address the issues of online business models or large office blocks.

Some respondents said that this helped to address the issue that small or micro businesses have with the fees taking a large proportion of their income.

Some respondents said that this didn't take into account the ability of the business to pay and that some sectors would be more adversely affected than others by this.

Some respondents said that this would lead businesses to centralise their service and would remove the personal touch for the customer.

A few respondents said that the fee should decrease per premises instead of increase.

Question 6 asked: *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?*

There were 68 responses to this question. 32 respondents (47%) said this would be too complex, 23 respondents (34%) said that it would not be too complex, 13 respondents (19%) made other responses querying the size of the bands, or whether premises were a good estimate of the size of a business. There were no other significant comments.

Question 7 asked: *Do you agree that an administration fee for late payment should be introduced?*

There were 214 responses to this question. 126 respondents (59%) said yes, 53 respondents (25%) said yes, but with appropriate safeguards and 34 respondents (15%) said no and 1 respondent (1%) had an unrelated response.

Some respondents said that until the registration system was working properly, there should not be any late renewal fees.

A number of respondents asked to be able to pay by direct debit.

HMRC agrees that there should be a late administration fee, but the current system needs safeguards in place before it would be reasonable to charge this fee. HMRC will consider how it can improve the service and put appropriate safeguards in place but will not introduce the late renewal fee at this time.

Question 8 asked: *Which method of charging for this late administration fee do you think HMRC should introduce and what level do you think would be appropriate?*

There were 181 responses to this question. 42 respondents (23%) preferred a fee of 5% of the registration fee, 60 respondents (33%) preferred an escalating fee, 44 respondents (24%) preferred a flat fee, 20 respondents (11%) preferred a 5% fee plus escalation, and 15 respondents (8%) gave other responses.

Question 9 asked: *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?*

Question 10 asked: *Do you think this is the best way to charge this fee? If not, please tell us what you think would be better.*

Some respondents felt that this work should be paid for by those that are tested. A number also agreed that HMRC should charge the £20 per person per year for this work. However, there was also a strong feeling that HMRC should simplify the structure.

A number of respondents also said that because the fit and proper and approvals tests were both going to be re-tested on an ongoing basis, this should form part of the normal registration fees.

A number of respondents felt that this would become more complex and unfair if they changed the number of fit and proper staff regularly.

On balance, HMRC view the introduction of another fee as more complication. In order to simplify the fee structure, we are not intending to introduce a fit and proper top-up fee, but instead raise the fit and proper fee to cover the re-testing.

Question 11 asked: 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?

There were 52 responses to this question. 32 said they were considering or intending to retire, downsize or close. A further 3 said they were intending to increase the size of their business. 17 said they had other changes in mind for their business model.

Question 12 asked: Which is your preferred option for charging for supervision or would you prefer to continue with the current method but with an increased fee?

There were 286 responses to this question. 67 respondents (23%) preferred option 1, the current method. 166 respondents (58%) preferred option 2, a flat fee plus a small percentage of turnover. 16 respondents (6%) preferred option 3, an escalating premises fee. 2 respondents (1%) preferred a combination of methods. 35 respondents (12%) expressed a preference for another method than those proposed. 100 respondents did not express a preference.

Question 13 asked: Do you have any other comments that you think we should know about when considering the fees structure?

Many respondents offered other methods for calculating a fee, which included:

- using the number of beneficial owners, officers or senior managers (those required to pass the fit and proper or approvals test)
- using the number of staff
- using the number of transactions
- discounts for members of professional bodies
- allowances for small or micro businesses
- registering agents directly
- different fees for different sectors.

A number of respondents said that the fees needed to be simplified into a single fee, instead of having approval, fit and proper and one-off application fees.

Some respondents said this should be paid for from general taxation instead of businesses having to pay for supervision.

Some respondents said that they shouldn't need to register based on their size, their inability to detect money laundering or their income.

A few respondents said that HMRC doesn't do enough about unregulated businesses and large fee increases could force more businesses into the unregulated environment.

Further comments received outside the scope of the consultation

Many respondents took the opportunity to comment more widely about anti-money laundering supervision.

These comments fell into the following general categories:

- chasing applications to register
- the online registration service
- communicating with AMLS
- exemptions for particular businesses.

We are grateful for these comments and will address them as part of our commitment to improve communications with supervised businesses and promote compliance with the Money Laundering Regulations.

3. Decision

HMRC have considered and analysed all the responses received in the consultation period.

These showed a preference for the turnover based fee, generally from individuals, sole traders, and small businesses. A variety of respondents mentioned this was because it would reduce the fee for them (as they would only pay the 'flat fee' element, rather than the 'turnover element'), which they felt would keep it at a level which was more proportionate to the level of risk they represent and also allow them to continue trading. However, medium and large firms expressed a preference for the current methodology.

Therefore HMRC propose to introduce a reduced "small business fee" from May 2019. Businesses with turnover less than £5,000 will pay a £180 fee, with other businesses continuing to pay under the existing per premises basis.

The existing per premises renewal fee will be increased to £300 per premises from May 2019, in order to ensure HMRC has sufficient funding to tackle risks related to illicit finance in the UK, as part of a wider government strategy. This also builds on the recommendations in the recent Financial Action Task Force (FATF) assessment of the UK's measures to combat money laundering and terrorist financing. HMRC needs to increase the number of staff working on compliance activity, both face-to-face and desk-based, to provide greater coverage of its supervised business population.

Respondents also raised concerns about the complexity of the fees structure and stated preference for a single fee that they could pay. We are therefore removing the one off charge to customers currently levied when they first register from January 2020 as well as not introducing the fit and proper re-test fee proposed in the consultation. Instead, we will increase the existing fee charged for fit and proper tests to £150 from May 2019.

Respondents felt that a late renewal fee was appropriate, but the current system needed safeguards in place before it would be reasonable to charge this fee. HMRC will consider how it can improve the service and put appropriate safeguards in place but will not introduce the late renewal fee at this time.

Section 4 shows a timeline of key steps.

New applications received before 1 May 2019 will be processed under the current structure. New applications received on or after 1 May 2019 will be processed under the new structure.

The consultation highlighted other issues HMRC will need to consider in more detail. These comments will be considered and taken into account in planning future reviews as well as communication:

- the impact of fees on the smallest businesses on the register
- the level of support HMRC provides to the businesses on its register
- the length of time before a business' registration is completed.

4. Next steps

We are grateful for the constructive engagement received during the consultation. Each response was read and considered as part of the analysis and summary.

The next steps HMRC will take to implement the decision are:

- increase fees to £300 per premises, from 1 May 2019
- introduce a “small business fee” of £180 for businesses with a turnover less than £5,000 from 1 May 2019
- increase the cost of the fit and proper fee to £150 from 1 May 2019
- remove the one-off application charge from January 2020
- not introduce a late renewal fee, but consider appropriate safeguards for the online system.