

Understanding the Use of Cash by Small and Mid-size Businesses

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1 Executive summary

Background

This research was commissioned to provide up to date robust evidence on small and mid-sized businesses' behaviour regarding payment transactions. The core objectives of this research were to:

- Quantify the costs of cash and digital payment transactions for small businesses; including hidden costs relating to administration, storage and processing;
- Identify the barriers impeding businesses and individuals from adopting digital payment systems; and
- Develop a better understanding of the behavioural drivers of cash-based evasion and their impact on social norms.

A mixed-method approach was taken for this research, consisting of a quantitative survey of 1,227 small businesses and 643 mid-sized businesses that could potentially accept cash payments (even if they chose not to do so) between October and November 2020. This was followed by 29 in-depth qualitative interviews that took place in November and December 2020.

Key findings

Overall, the pandemic has been a catalyst to change, speeding up the general trend away from cash payments. Many small businesses had already started accepting cards within the last 5 years – before the pandemic of 2020. Online and card payments became more widely used by small and mid-size businesses throughout 2020-21 and the trend is likely to continue in the future, with most small and mid-size businesses expecting their use of cashless payments to either stay the same or increase in the future.

Online payment methods were the most common payment method accepted by both small and mid-size businesses and represented the largest proportion of their sales in 2019-20. Despite the direct costs of using cash being lower than digital payment methods, most businesses preferred cashless payments due to the perceived benefits of convenience, security and more recently, hygiene. Online bank transfers were most commonly cited as being their preferred payment method.

Businesses face relatively few barriers to accepting cashless payments or increasing the amount of cashless transactions they accept. The main barrier reported was customer preference for using cash, rather than technical or cost implications.

There was some disconnect with businesses' views on evasion and the extent to which they felt it was commonplace. While the majority of small and mid-sized businesses felt it was never acceptable to accept cash payments to avoid¹ paying tax, a sizeable portion believed other businesses think it is okay to under-declare their income to avoid paying tax. Around one in five small

¹ Whilst we are using the term 'avoid' here and do so throughout the report, this is not referring to 'tax avoidance' as legally defined. The use of 'avoid' in this way throughout the report is interchangeable with 'evade'.

businesses and one in six mid-size businesses also thought it was acceptable for an individual doing a small or quick job to take cash to avoid paying tax.

In-depth follow-up interviews highlighted that businesses had empathy for self-employed and smaller businesses facing financial challenges. Where the amount of tax owed was small, businesses felt avoiding paying tax could be justified.

Payment methods accepted and encouraged

Online bank transfers (including direct debits and standing orders) were the most common payment method accepted by small and mid-size businesses, with 92% of small and 94% of mid-size accepting them. 75% of small and 73% of mid-size businesses accepted cash payments.

66% of small and 71% of mid-size businesses said they encouraged a particular payment method or methods. Where preference was expressed, they were most likely to prefer online bank transfers (82% small and 83% mid-size). Just 2% of small businesses reported cash payments as their preference and no mid-size businesses encouraged cash payments.

Proportion of sales from each payment method

Proportion of sales in 2019-20 from each payment method accepted

Although widely accepted, cash payments represented a relatively low proportion of small and mid-sized business turnover in 2019-20. Where online transfers were accepted this was the dominant payment method contributing to sales.

Cash payments typically made up no more than 10% of sales for those businesses that accepted them. 25% of small and 26% of mid-size had not registered any revenue at all through cash. In contrast, for businesses that accepted online bank transfers this was the dominant payment method, contributing a mean of 68% of sales for small and a mean of 72% of sales for mid-size businesses.

Proportion of sales expected in 2020-21 from each payment method accepted

Around one in three small (28%) and mid-size businesses (29%) expected changes in the turnover received through different transaction types in 2020-21. Where changes were expected the trend was generally a reduction in turnover accepted through cash and increases in turnover through other means.

Direct costs incurred for each payment method

Cash payments had the lowest direct fees associated with them in comparison with other payment methods (and many stated there were no direct costs associated with cash payments at all).²

Among small businesses that provided ongoing direct costs for the payment methods that they accepted; the highest mean costs were for online bank transfers at £8,471 per annum. The lowest mean direct costs were for cash payments at £676 per annum.

² The costs provided for each payment method are based on respondent recall only and are not verified as absolute.

Among mid-size businesses that provided ongoing direct costs for the payment methods that they accepted; the highest mean costs were for card payments at £30,678 per annum. The lowest mean direct costs were for cash payments at £5,047 per annum.

Other costs associated with payment methods

Just over half of small businesses (54%) incurred other costs associated with different payment methods. Most commonly, these costs were for internet and connectivity (31%), staff time (26%), and general administration (19%).

Around two-thirds of mid-size businesses (65%) incurred other costs associated with different payment methods. Most commonly, these costs were for staff time (48%), internet and connectivity (28%), and general administration (24%).

Impact of Covid-19 on payment methods accepted and encouraged

Small businesses

One in six (16%) small businesses had changed the payment options they were willing to accept since the start of the pandemic. There was a move away from cash with 5% of all small businesses no longer accepting cash payments and 3% discouraging or reducing acceptance of cash payments. Some small businesses had started taking online bank transfers or various types of card payments as a direct result of the pandemic.

Around one in ten of all small businesses (11%) had changed the payment method(s) they encouraged due to Covid-19. The change(s) made in response to the Covid-19 pandemic were most often to try to reduce physical contact in general (4%). This was most often by discouraging cash payments (2%), taking more card payments (2%) or encouraging online bank transfers (2%).

Mid-size businesses

One in six (16%) mid-size businesses had also changed the payment options they were willing to accept since the start of the pandemic. Of these, the most likely action taken was to no longer accept cash (8%). Other actions included reduced or discouraged cash payments and stopped taking or discouraged cheques.

Around one in seven of all mid-size businesses (15%) had changed the payment method(s) they encouraged because of Covid-19. The change(s) made in response to the Covid-19 pandemic were most often to try to reduce physical contact in general (4%) and this was done by discouraging cash payments (3%) or ceasing them altogether (3%).

Future expectations for cashless payments

Looking to the future, expectations among small and mid-size businesses were for cash use to decrease, and cashless payments to stay the same (55% small and 52% of mid-size) or increase (40% small and 45% mid-size). The majority of businesses perceived no barriers to this (78% small and 76% mid-size). The most mentioned perceived barrier was customer preference for using cash, reported by 5% of small and 8% of mid-size businesses.

Very few businesses expected their use of cashless payments to decrease (3% small and 1% mid-size). 1% of small businesses said they never expect to accept cashless payments. A small number of businesses were completely cashless already (5% small and 8% mid-size).

Views on tax evasion

Almost all businesses said it is never acceptable for a business to accept cash payments in order to avoid paying tax (90% small and 94% mid-size).

When asked to think in terms of an individual person, a higher proportion of small businesses felt tax evasion would be acceptable to some extent. 19% of small and 16% of mid-size businesses thought it was either sometimes or always acceptable to take cash payments for a small or quick job in order to avoid paying tax.

13% of small businesses said that it was sometimes or always acceptable to accept cash payments for overtime in order to avoid paying tax. In contrast 93% of mid-size businesses said that this was never acceptable.

23% of small and 19% of mid-size businesses perceived the general view among those they know to be that it is okay not to pay tax on cash earnings. 28% of small and 20% of mid-size businesses thought that a lot of small and mid-size businesses think it is okay to under-declare their income in order to avoid paying tax.

2 Introduction

Background

In recent years, the ongoing trend in payments in the UK has been away from cash and towards card payments and other digital payment methods. While the transition towards digital payments brings many opportunities, cash remains an essential method for many. Cash remains the second most common method of payment and is of vital importance to the elderly, those with low incomes, rural communities and small charities. As such, the government is committed to protect access to cash for those who need it and ensure that the UK's cash infrastructure is sustainable in the long term and recognises the vast majority of traders and businesses accepting payments in cash do so honestly.³

However, recent HMRC research suggests that cash is the most commonly used type of payment for hidden economy behaviour.⁴ Tax evasion is not acceptable via any payment method, however, cash-based tax evasion in particular presents a significant challenge for HMRC because it is difficult to measure and tackle.

In 2016 when research was conducted with small businesses, it identified several barriers preventing small businesses accepting digital payments over cash, including: the costs associated with offering digital payments, a perceived lack of demand among consumers and a lack of trust / and or understanding of digital payments.

However, since that research was commissioned, the payments landscape has changed considerably, which is likely to influence businesses' decisions over which types of payments to accept. These key changes include:

- The impact of the Covid-19 pandemic – fieldwork took place in the Autumn of 2020 providing businesses with the opportunity to reflect on the immediate impact;
- The growth of contactless technology;
- Cheaper access to card readers for businesses;
- Market review and intervention; and
- The introduction of Making Tax Digital for Businesses- which forms a key part of the Government's plans to make it easier for businesses to get their tax right and keep on top of their affairs.

This research was commissioned to provide up to date robust quantitative evidence on businesses' behaviour regarding payment transactions.

3

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/926666/Call_for_Evidence_-_Access_to_Cash_15.10.2020.pdf

4 <https://www.gov.uk/government/publications/the-hidden-economy-in-great-britain>

Objectives

The core objectives of this research were to:

- Quantify the costs of cash and digital payment transactions for small businesses; including hidden costs relating to administration, storage and processing;
- Identify the barriers impeding businesses and individuals from adopting digital payment systems; and
- Develop a better understanding of the behavioural drivers of cash-based evasion and their impact on social norms.

Methodology

A mixed-method approach was taken for this research, consisting of a quantitative survey of businesses, followed by in-depth qualitative interviews. IFF Research undertook the research project on behalf of HMRC.

Quantitative survey

A quantitative survey was conducted with 1,870 businesses that could potentially accept cash payments (even if they chose not to do so) between October and November 2020. Interviews were conducted primarily using Computer Aided Telephone Interviewing (CATI) software; however, businesses were able to complete the survey online if preferred – of which there were 21 surveys completed via this method. Interviews conducted by telephone lasted 16 minutes on average.

The sample was drawn from the Market Location database and screened to ensure the business had the facility to accept cash payments. For this research, businesses with under 20 employees were classed as small and those with 20 or more employees classed as mid-size. Table 2.1 presents the number of interviews achieved in each size group.

Table 2.1 Profile of quantitative interviews by size

	Number of interviews
Small	1,227
Mid-size	643
TOTAL	1,870

For analysis and reporting, small and mid-size businesses were treated as two separate populations. The data has been weighted by sector to represent the two respective populations with the facility to accept cash payments as some sectors were oversampled. Further information on the weighting strategy can be found in Appendix A of this report.

Businesses that took part in the survey included a mix of industry sectors. However, as the base size for certain sectors was low, some of the sectors were grouped to make analysis by sector more feasible. The achieved sector split by size of business is displayed in Table 2.2.

Table 2.2 Profile of quantitative interviews by sector and size

Sector code	Sector	Small	Mid-size
A / B / D / E / H	AGRICULTURE, FORESTRY AND FISHING; ELECTRICITY, GAS, STEAM AND AIR CONDITIONING SUPPLY; WATER SUPPLY; SEWERAGE, WASTE MANAGEMENT AND REMEDIAION ACTIVITIES; MINING AND QUARRYING; TRANSPORTATION AND STORAGE	82	41
C	MANUFACTURING	102	81
F	CONSTRUCTION	110	25
G	WHOLESALE AND RETAIL TRADE; REPAIR OF MOTOR VEHICLES AND MOTORCYCLES	282	68
I	ACCOMMODATION AND FOOD SERVICE ACTIVITIES	143	57
J / K / L	FINANCIAL AND INSURANCE ACTIVITIES; INFORMATION AND COMMUNICATION; REAL ESTATE ACTIVITIES	63	28
M / N / O	PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES; ADMINISTRATIVE AND SUPPORT SERVICE ACTIVITIES; PUBLIC ADMINISTRATION AND DEFENCE, COMPULSORY SOCIAL SECURITY	187	79
P	EDUCATION	59	152
Q / R / S	HUMAN HEALTH AND SOCIAL WORK ACTIVITIES; ARTS, ENTERTAINMENT AND RECREATION; OTHER SERVICE ACTIVITIES	199	112
TOTAL		1,227	643

Mean and median average results are referenced in this report. The mean is calculated by adding all numbers in the data set and then dividing by the number of values in the set. Median is the value which occupies the middle position when all the observations are arranged in an ascending/descending order. While the mean makes use of every element in the data set, it is sensitive to extreme elements. Conversely, the median is not distorted by any extreme value, however, it does not take into account the precise value of each observation and hence has no bearing on the shape of data distribution.

When looking at the proportion of sales coming from each payment method in Chapter 6 of this report, the mean average arguably gives a better overall picture of the results. However, when looking at the costs associated with accepting the different payment methods later in the chapter, the median could be seen as the “safer” metric as it will not be influenced by any very high or very low costs reported by businesses.

The proportion of sales from each payment method and the costs associated with each payment method are based on respondent recall only and are not verified as absolute.

Qualitative interviews

Qualitative interviews with 29 businesses that had agreed to be contacted to take part in a follow-up interview were conducted by telephone and video conferencing. Businesses were categorised in line

with their attitudes towards cash use and evasion by reviewing their answers to the survey questions. Businesses were categorised as 'high opportunity/acceptance' if they satisfied at least one of the following:

- Those who only accept cash payments or those who encourage cash payments
- “How acceptable do you think it is for a business to accept cash payments in order to avoid paying tax?” = people who say acceptable in some circumstances / always acceptable
- “How acceptable do you think it is for someone to accept cash payments for extra work if it's a small or quick job in order to avoid paying tax?” = people who say acceptable in some circumstance / always acceptable
- “How acceptable do you think it is for someone to accept cash payments for extra work if it's overtime in order to avoid paying tax?” = people who say acceptable in some circumstance / always acceptable
- Those who agree with the statement “A lot of small and medium-size businesses think it is okay to under-declare their income in order to avoid paying taxes”.

Table 2.3 presents the split by size of business. Businesses that took part in the qualitative interviews included a mix of industry sector.

Table 2.3 Profile of qualitative interviews by size and attitudes towards tax avoidance

	High opportunity/acceptance	Low opportunity/acceptance	TOTAL
Small	10	5	15
Mid-size	9	5	14
TOTAL	19	10	29

The qualitative interviews explored the responses businesses gave during the survey in further detail, as well as exploring more general views towards the tax system and the ways in which businesses in general pay their tax. Interviews lasted up to an hour.

At an overall level there were not many differences in attitudes and behaviours observed between businesses deemed as high opportunity/acceptance and those deemed as low opportunity/acceptance. As such, the two groups have not been referenced specifically in this report. However, the analysis of responses shows that the more of the recruitment criteria they satisfied to be classed as high opportunity/acceptance for sampling – the ‘riskier’ their views during the interview.

The qualitative findings detail the beliefs and perceptions of those purposively sampled for follow-up and are not representative of the business population.

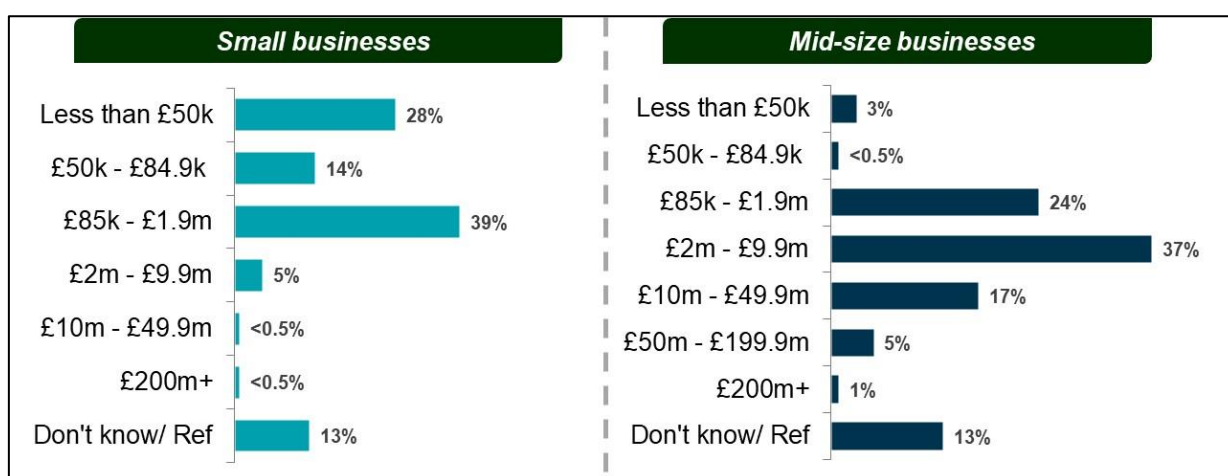
3 Business profiling

This chapter details the turnover of the businesses that took part in the survey and their typical customers. It then explores how businesses have found the last six months and what have been the biggest challenges, as covered in the qualitative interviews.

Turnover and customer profile

As presented in Figure 3.1, small businesses typically reported a turnover of below £2m for the last financial year (2019-20), reported by 81% of small businesses. By contrast, mid-size businesses typically had a turnover of over £2m (60%).

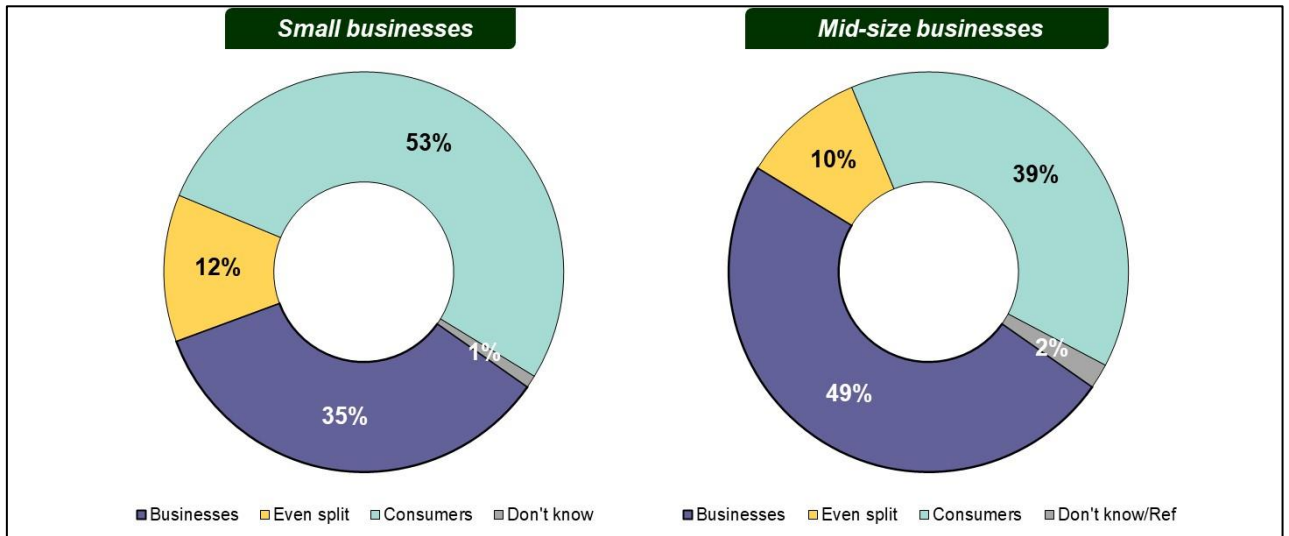
Figure 3.1 Business turnover



A1. What was your business' approximate turnover for the last financial year? Base: All businesses: Small (1,227); Mid-size (643)

In terms of customer profile, Figure 3.2 illustrates that small businesses were more likely to sell to end consumers than to other businesses. Just over half (53%) sold mainly to consumers, while 35% sold mainly to businesses and 12% had an even split between the two. This trend was reversed for mid-size businesses, which were more likely to sell to businesses (49%) than to end consumers (39%). Significant differences in terms of number of employees, region and sector can be found in Appendix B.

Figure 3.2 Customer profile



A2. Does your business sell mainly to businesses or to end consumers? Base: All businesses: Small (1,227); Mid-size (643)

4 Payment methods accepted

This chapter explores the different payment methods accepted by businesses and whether businesses record sales through cash and non-cash separately. It covers how long businesses have been accepting card payments and whether there is a minimum spend required for customers paying via card. The chapter concludes by discussing whether businesses encourage particular payment methods, and if so, which payment methods and why, followed by attitudes towards cash payments obtained from the qualitative interviews.

Payment methods accepted by businesses

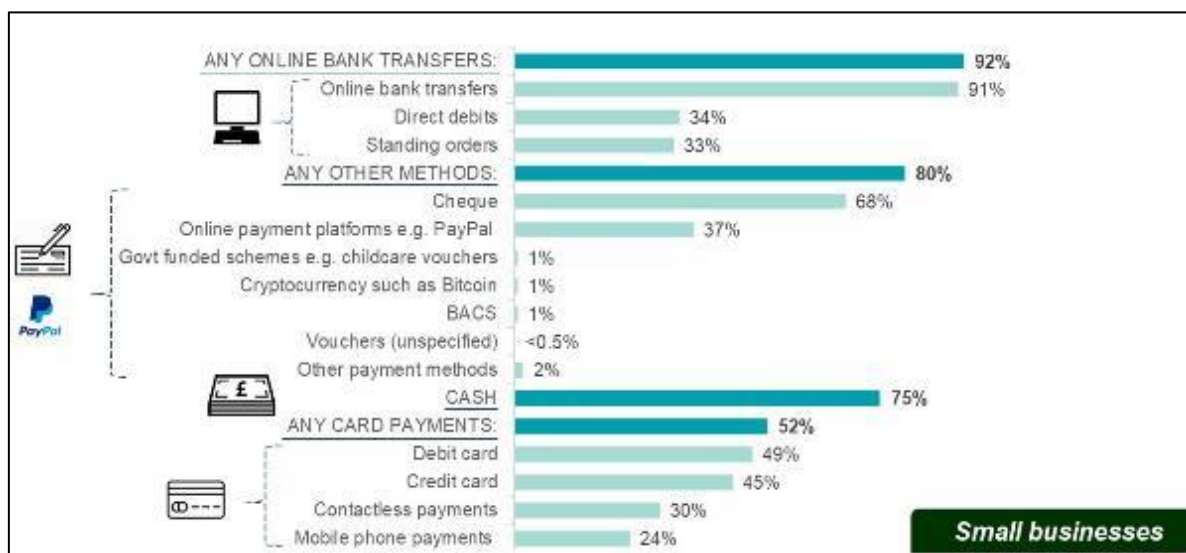
Businesses were asked which payment methods they accept from their customers. Respondents were asked to record all the potential payments methods they would be willing to accept, even if customers rarely or never pay by certain methods.

Small businesses

As presented in Figure 4.1 the top three payment methods accepted by small businesses were online bank transfers (91%), cash (75%)⁵ and cheque (68%); whilst all other methods were accepted by under half of small businesses.

Grouping the methods by type into four categories, the one most likely to be accepted was ‘any online bank transfers’ (92%), followed by ‘any other methods’ (80%), then cash (75%) and then ‘any card payments’ (52%).

Figure 4.1 Payment methods accepted by small businesses



B1. Which of the following payment methods would you accept from your customers? Base: All small businesses (1,227)

⁵ All businesses participating in the research had the facility to accept cash payments. This figure refers to the percentage of small businesses that do accept it.

Significant differences amongst sub-groups

Cash payments:

Self-employed individuals (83%) and businesses with a turnover of less than £50,000 (88%) were significantly more likely to accept cash than the other small businesses, as were those that sold mainly to consumers (83%). There were some sector and regional differences; these can be found in Appendices D and E.

Conversely, small businesses with 1-9 employees (73%), a turnover of £85,000 - £1,999,999 (70%) or £2m - £9,999,999 (64%), and those selling mainly to other businesses (62%) were significantly less likely than average to accept cash payments. Sector and regional differences can be found in Appendices D and E.

Online bank transfers:

Nine in ten small businesses (92%) accepted '**any online bank transfers**'. This proportion was significantly higher among those with a turnover of £85,000 - £1,999,999 (97%). Conversely, small businesses with a turnover of less than £50,000 were significantly less likely to accept 'any online bank transfers' (88%). Sector and regional differences can be found in Appendices D and E.

Card payments:

Just over half of small businesses (52%) accepted '**any card payments**'. This proportion was significantly higher among those with 10-19 employees (72%) and businesses that typically sell to consumers (61%). Conversely, the self-employed (47%) and those that mainly sell to other businesses (38%) were significantly less likely to accept 'any card payments'. Sector and regional differences can be found in Appendices D and E.

Other payment methods:

Eight in ten small businesses (80%) accepted '**any other methods**' (cheque, PayPal, government funded schemes, cryptocurrency, BACS, vouchers etc.). The proportion willing to accept any of these payment methods was significantly higher among those with 10-19 employees (87%), businesses with a turnover of £85,000 - £1,999,999 (85%) and those mainly selling to other businesses (85%). On the other hand, small businesses selling mainly to end consumers (77%) were significantly less likely to accept 'any other methods'. Sector and regional differences can be found in Appendices D and E.

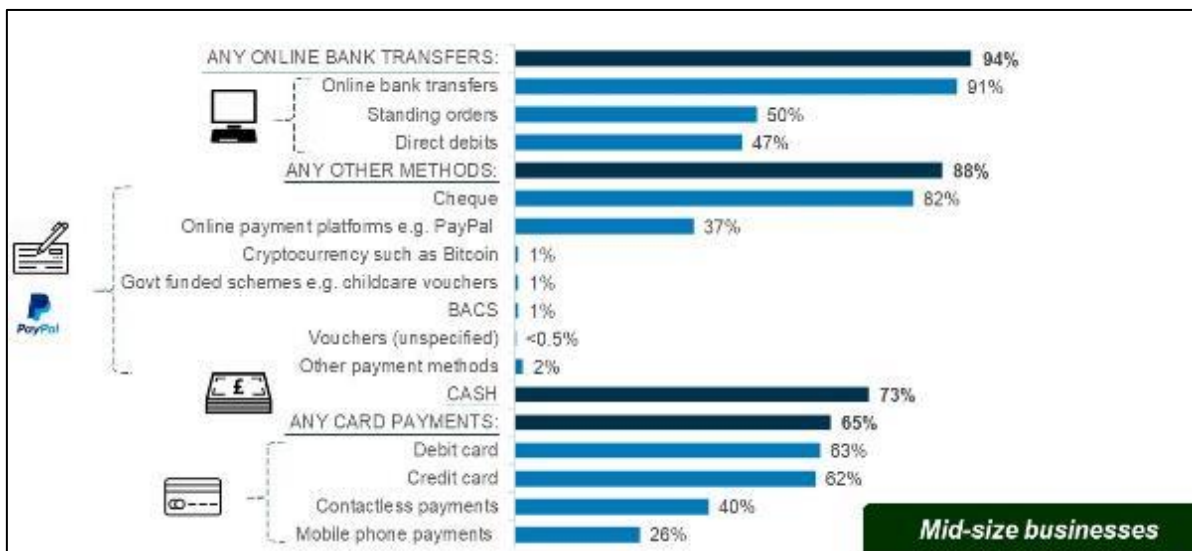
Mid-size businesses

The top three payment methods accepted by mid-size businesses were online bank transfers (91%), cheque (82%) and cash (73%)⁶, as presented in Figure 4.2.

⁶ All businesses participating in the research had the facility to accept cash payments. This figure refers to the percentage of mid-size businesses that do accept it.

By the four broad categories, the method most likely to be accepted was ‘any online bank transfers’ (94%), followed by ‘any other methods’ (88%), then cash (73%) and then ‘any card payments’ (65%).

Figure 4.2 Payment methods accepted by mid-size businesses



B1. Which of the following payment methods would you accept from your customers? Base: All mid-size businesses (643)

Significant differences amongst sub-groups

Cash payments:

Mid-size businesses selling mainly to consumers were significantly more likely to accept cash than other mid-size businesses (87%). There were a few significant differences by sector; these can be found in Appendix D. Conversely, mid-size businesses selling mainly to other businesses were significantly less likely to accept cash payments (63%). There were no differences by region among mid-size businesses.

Turning to the other types of non-cash payments, there were also variations in which mid-size businesses were more or less likely to accept each.

Online bank transfers:

Over nine in ten mid-size businesses (94%) accepted ‘any online bank transfers’. This proportion was significantly higher among those with a turnover £2m - £9,999,999 (97%) and those mainly selling to other businesses (100%). Conversely, mid-size businesses selling mainly to end consumers were significantly less likely to accept ‘any online bank transfers’ (85%). Differences by sector and region are presented in Appendices D and E.

Card payments:

Two thirds of mid-size businesses (65%) accepted ‘any card payments’. Mid-size businesses displaying a significantly greater willingness to accept these types of payments were those with over 250 employees (80%) and those selling mainly to consumers (79%).

On the other hand, mid-size businesses with 20-249 employees (64%) and those selling mainly to other businesses (53%) were significantly less likely to accept any card payments. Differences by sector and region are presented in Appendices D and E.

Other payment methods:

Nearly nine in ten mid-size businesses (88%) accepted '**any other methods**' (cheque, PayPal, government funded schemes, cryptocurrency, BACS, vouchers etc.). This proportion was significantly higher among those with a turnover of £2m - £9,999,999 (92%) or £10m - £49,999,999 (94%), and those selling mainly to other businesses (94%).

Conversely, businesses with a turnover of £85,000 - £1,999,999 (82%) and those selling mainly to end consumers (78%) were significantly less likely to accept 'any other methods' of payment. Differences by sector and region are presented in Appendices D and E.

Reasons for not accepting digital payments

Just 1% of small businesses stated that they are 'cash only' and they were asked why they did not accept digital payments such as card payments. There were no mid-size businesses that only accepted cash payments.

Reasons for not accepting digital payments included the hardware/equipment required, transaction fees and that there is no demand for it from their customers.

There were deemed to be certain barriers to accepting card payments in particular. The qualitative interviews revealed that some businesses were put off by the fees associated with card transactions – such that they had chosen to never accept card payments for that reason, dissuaded customers who requested to pay by card, or stopped accepting card payments when they found it to be too costly.

"We do get a few requests {to take card payments}, but in order to set up the facility to take card payments, we thought it would cost us more than we would benefit from it. Because we do ultimately set up the Direct Debits - so it would only be for that first payment. We would be incurring subscription fees and the commission that would be taken, the 1-2%. It could be one payment every couple of months and it just wouldn't be worth it when we could get a bank transfer instead."

Mid-size business, Human health and social work activities, high opportunity/acceptance

Some said they simply were not geared up to accept card payments as they did not have the card reading equipment.

"We never take card payments. We do not have card paying facilities at the office. Historically I have never taken card payments."

Mid-size business, Construction, high opportunity/acceptance

A couple of businesses said it was not feasible for the nature of their operations – one because they had lots of different geographic locations or because of the nature of their customer base (people who were homeless and therefore had no banking facilities).

"We really try to encourage bank transfer, and not card payments because we have lots of different depots around the country and the accounts department is also in a different place. It just wouldn't work to have a facility for card transactions, all the extra work".

Mid-size business, Construction, high opportunity/acceptance

A couple of businesses in the wholesale and retail sector said that the payments they take are too large, in their view, for card payments to be appropriate.

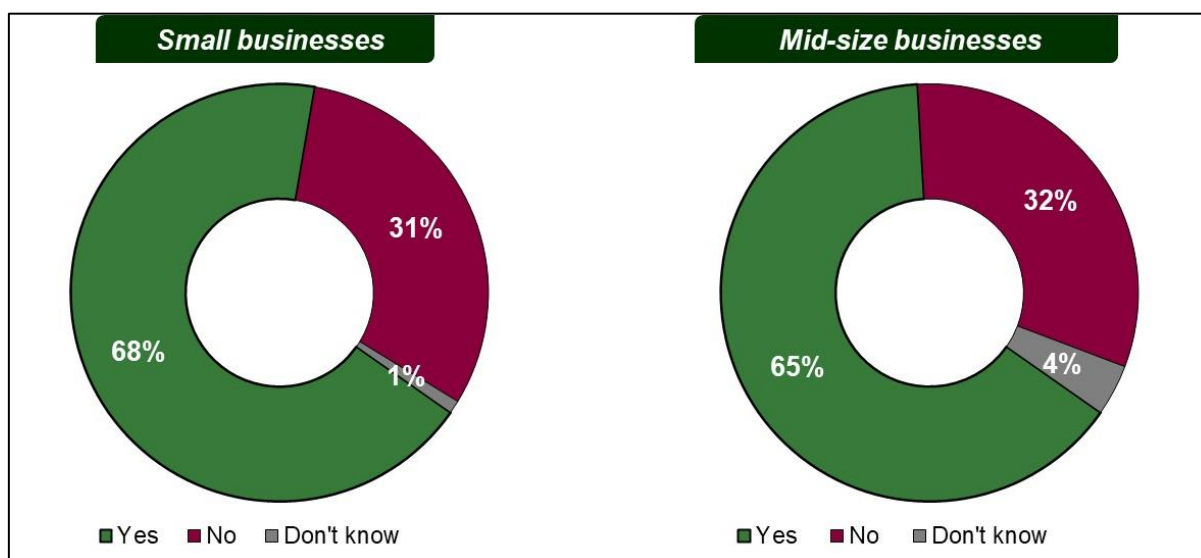
"We are a small business and the amounts we take are too large to take on a card. I can't be bothered to set up the system anyway. Our customers are big businesses, they wouldn't be wanting to phone up and pay on a credit card anyway."

Small business, Wholesale and retail, low opportunity/acceptance

Recording cash and non-cash separately

Around two thirds of both small and mid-size businesses (68% and 65% respectively) recorded their sales through cash and non-cash separately, whilst approaching a third did not do so.

Figure 4.3 Whether businesses record sales through cash and non-cash separately



C1. Does your business record sales through cash and non-cash separately, in a way that allows you to easily calculate the value of your sales by either payment method? Base: All businesses that accept cash and at least one other payment method: Small (938); Mid-size (487)

Significant differences amongst sub-groups

Small businesses

Among small businesses, those with 10-19 employees were significantly more likely than others to record sales through cash and non-cash separately (78%), whereas the self-employed were significantly less likely (63%). Those whose typical customers were end consumers were significantly more likely to record cash and non-cash separately (73%), while those who mainly sold to other businesses were significantly less likely (60%). Differences by sector and region are presented in Appendices D and E.

Mid-size businesses

The proportion recording sales through cash and non-cash separately was significantly higher among those with lower turnovers: 80% among those with turnover of £85,000 - £1,999,999 but only 56% among those with turnover £2m - £9,999,999. Those whose typical customers were end consumers were significantly more likely to record cash and non-cash separately (75%) than those who mainly sold to other businesses (53%). There were no significant regional variations.

Card payments

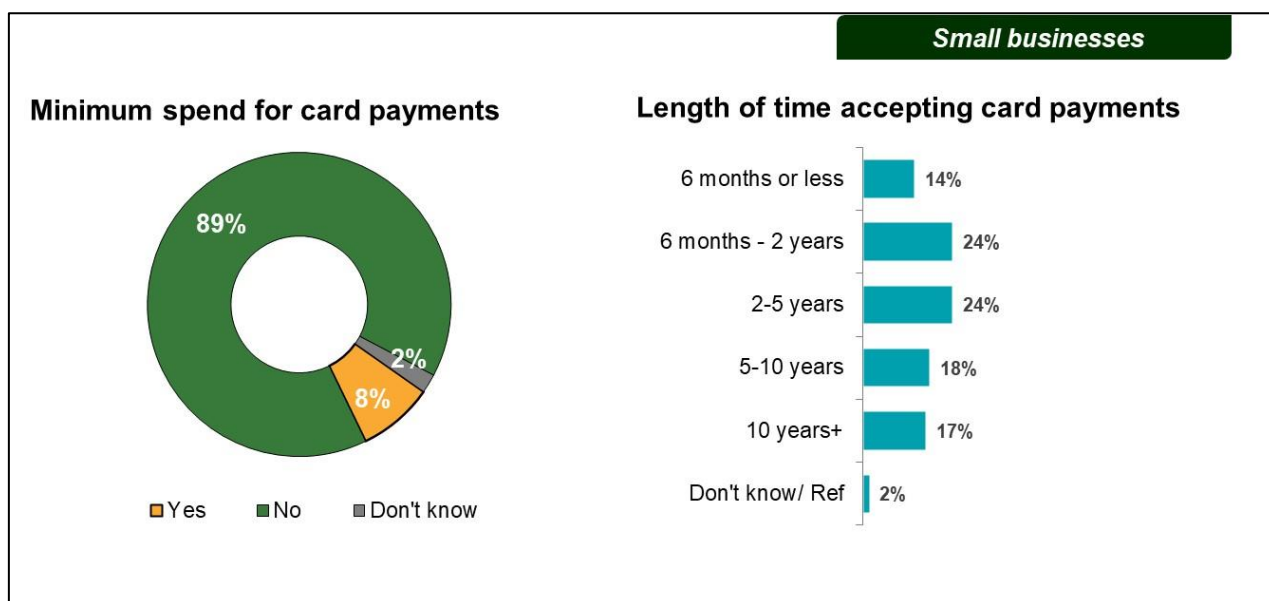
Businesses were asked how long their business had been accepting card payments and whether there is a minimum spend for card payments (and if so, why).

Small businesses

Nearly four in ten small businesses only started accepting card payments within the last 2 years (38%). Around a quarter had been accepting them for between 2 and 5 years, and just over a third had been accepting card payments for more than 5 years, as Figure 4.4 shows.

As presented in Figure 4.4, most small businesses (89%) did not have a minimum spend for card payments; only 8% said they did. The most common reason for having one was to cover admin and software charges (39%).

Figure 4.4 Length of time accepting card payments and minimum spend – small businesses



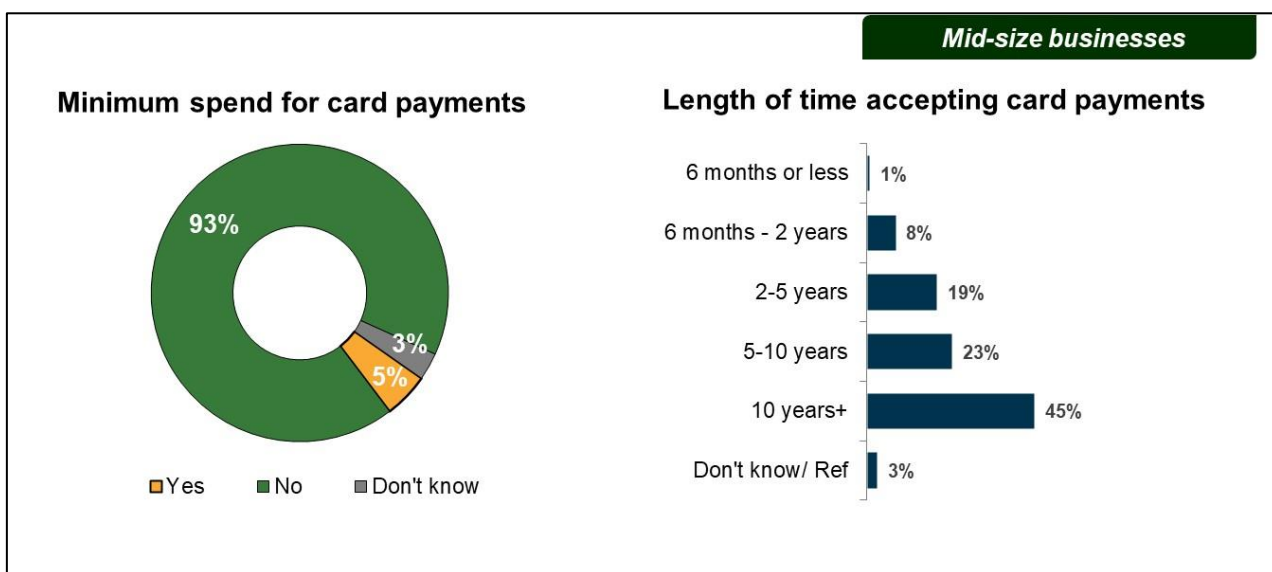
C3. Is there a minimum spend for card payments? C2. How long has your business been accepting card payments for?
Base: All small businesses who accept card payments (699)

Mid-size businesses

Mid-size businesses were typically well established in taking card payments. Over 4 in 10 had been accepting them for more than a decade (45%), as presented in Figure 4.5.

As shown in Figure 4.5, only 5% of mid-size businesses had a minimum spend for card payments. The most common reason provided was to cover admin and software charges (62%).

Figure 4.5 Length of time accepting card payments and minimum spend – mid-size businesses



C3. Is there a minimum spend for card payments? C2. How long has your business been accepting card payments for?
 Base: All mid-size businesses who accept card payments (374)

Significant differences amongst sub-groups

Self-employed individuals and businesses with a turnover of less than £50,000 were significantly more likely to report that they had only accepted card payments in the last six months (21% and 26% respectively) or between six months and two years (31% and 30% respectively).

Mid-size businesses in wholesale and retail (62%) were significantly more likely to report having been accepting card payments for more than a decade. Meanwhile, those operating in human health and social work; arts and entertainment; or other service activities sectors were significantly more likely to have accepted card payments in the last six months to two years (20%).

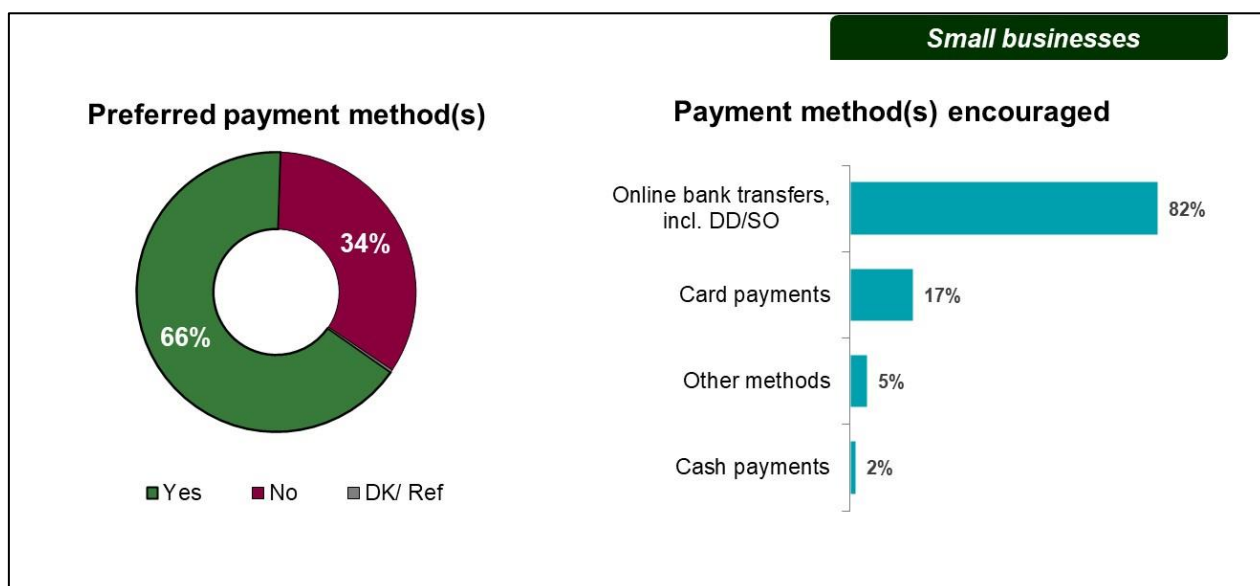
Payment preferences

Businesses were asked whether they encouraged any particular payment methods, and if so, which methods and why.

Small businesses

Two thirds of small businesses (66%) said they encouraged a particular payment method or methods. Small businesses were most likely to prefer online bank transfers (82%), followed by card payments (17%). 5% reported other payment methods and just 2% reported cash payments as their preference.

Figure 4.6 Small businesses' preferred payment methods



C8. Does your business encourage particular payment methods? Base: All small businesses that accept more than one payment method (1,169)

C9. What methods do you encourage people to use? (multi-coded) Base: All small businesses who encourage certain method(s) (738)

Significant differences amongst sub-groups

Small businesses operating in human health and social work; arts and entertainment; other service activities (58%), wholesale and retail (57%) or accommodation and food service activities sectors (50%) were significantly less likely to encourage a particular payment method.

The following types of small businesses were significantly more likely than other small businesses to encourage cash payments: Self-employed (5%); Less than £50,000 turnover (6%); Sector grouping: human health and social work; arts and entertainment; other service activities (6%); Typical customers: end consumers (4%).

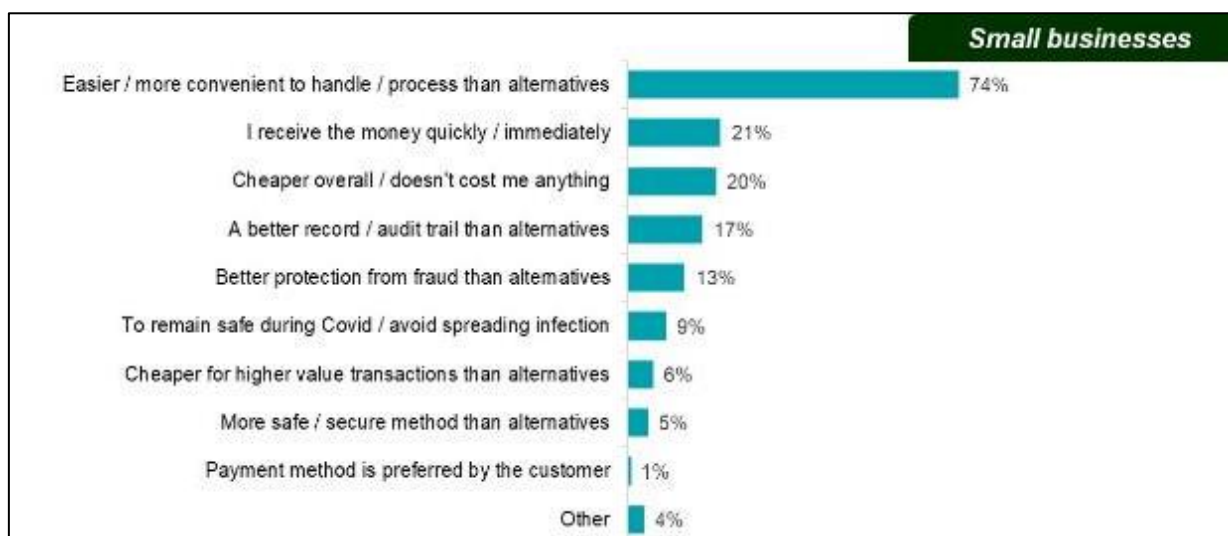
In contrast, the proportion of small businesses that encouraged cash payments was significantly lower among: £85,000 - £1,999,999 turnover (<0.5%); wholesale and retail (where no small businesses encouraged it); Typical customers: businesses (<0.5%)

Reasons for encouraging particular payment method(s)

Small businesses

Small businesses were asked why they encouraged a particular payment method. Overall, the top reason given was that it was easier to handle or process (74%). One in five said they receive the money quickly/immediately (21%) and that it is cheaper overall than alternative payment methods (20%).

Figure 4.7 Reasons for encouraging particular payment method(s) – small businesses



C10. And why do you encourage a particular payment method? Base: All small businesses who encourage a particular payment method (738)

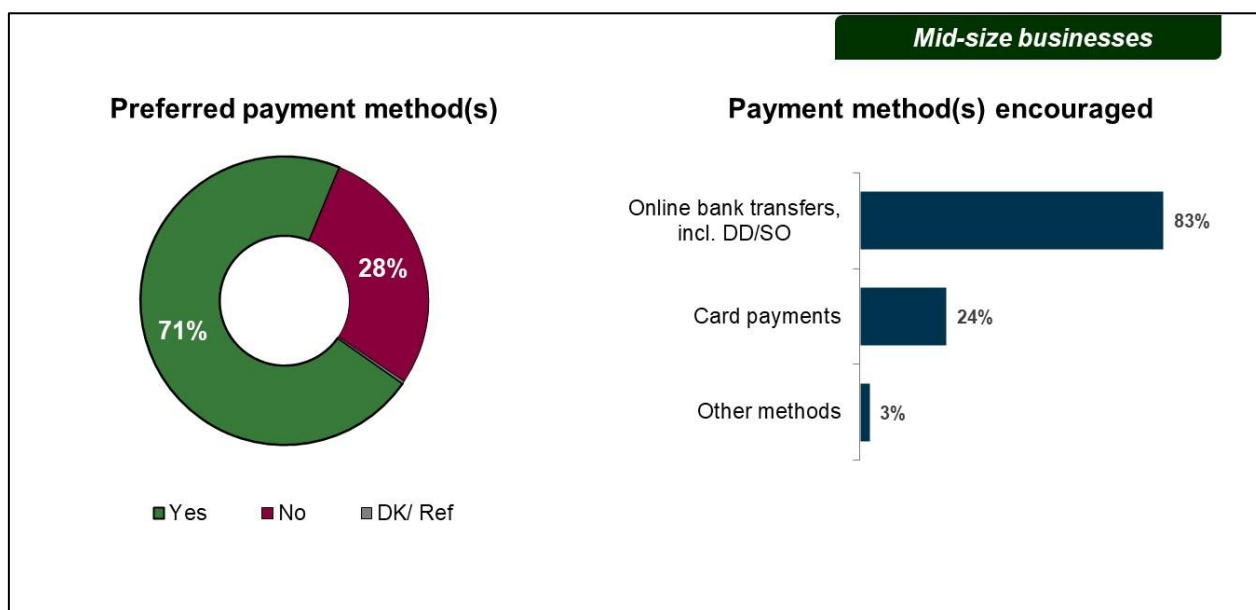
Small businesses that encouraged card payments were significantly more likely to explain that the reason is to remain safe during Covid / avoid spreading infection (34%).

Those encouraging online bank transfers were significantly more likely to report that they are easier to handle or process (79%), cheaper (23%) and provide a better audit trail than alternatives (18%). Meanwhile, small businesses that encouraged other payment methods were significantly more likely to do so because they believe they are more secure (13%).

Mid-size businesses

Seven in ten mid-size businesses (71%) said they encouraged a particular payment method or methods. Over eight in ten mid-size businesses encouraged online bank transfers (83%). A quarter preferred card payment (24%), while 3% reported other payment methods. There were no mid-size businesses that encouraged cash payments.

Figure 4.8 Mid-size businesses' preferred payment methods



C8. Does your business encourage particular payment methods? Base: All mid-size businesses that accept more than one payment method (626)

C9. What methods do you encourage people to use? Base: All mid-size businesses who encourage certain method(s) (454)

Significant differences amongst sub-groups

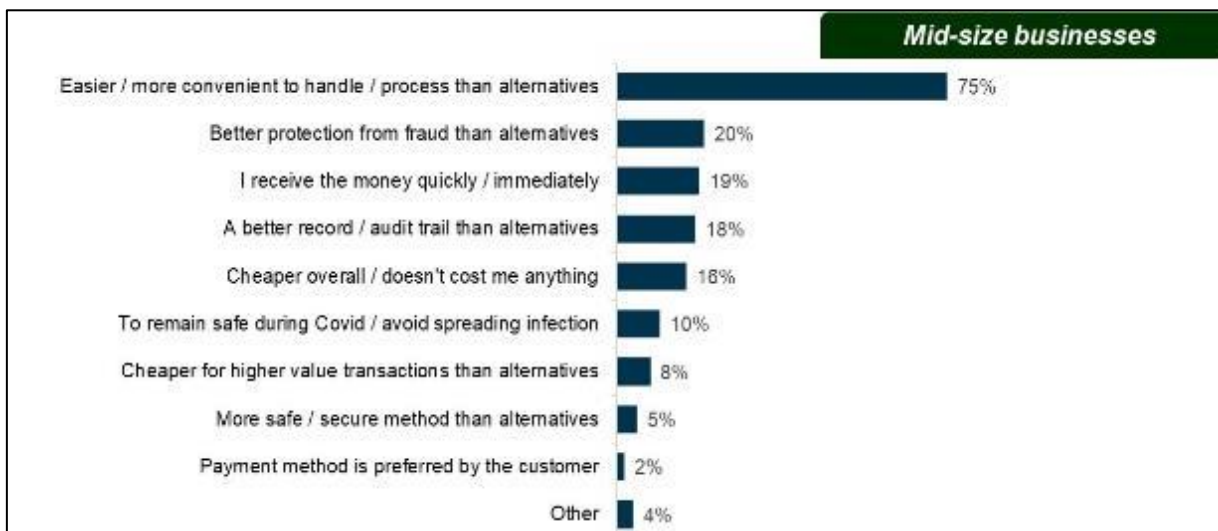
Mid-size businesses operating in professional, scientific and technical; admin and support services; public administration and defence sectors (81%), those located in Yorkshire and the Humber (85%) and those selling mainly to businesses (80%) were significantly more likely to encourage a particular payment method. Meanwhile, mid-sized businesses selling mainly to end consumers (64%) and those operating in the accommodation and food service activities sector (44%) were significantly less likely.

Reasons for encouraging particular payment method(s)

When asked why they encouraged a particular payment method, the primary reason cited by three quarters of mid-size businesses was ease of use (75%). Other reasons cited by fewer respondents are shown in Figure 4.9.

Mid-size businesses that encouraged card payments were significantly more likely to explain that the reason is to remain safe during Covid / avoid spreading infection (34%) and because card payments are more secure than other payment methods (10%). Those encouraging online bank transfers were significantly more likely to report that they are easier to handle or process (80%), they receive the money quickly (22%), they are cheaper (18%) and provide a better audit trail than alternatives (20%).

Figure 4.9 Reasons for encouraging particular payment method(s) – mid-size businesses



C10. And why do you encourage a particular payment method? Base: All mid-size businesses who encourage a particular payment method (454)

Qualitative findings on encouraging particular payment method(s)

The qualitative interviews asked people to explain in more detail why they encourage a particular payment method. Twenty-two of the 29 interviewees had a preferred payment method and nearly all of these businesses preferred online bank transfers. The two key reasons cited for preferring online bank transfers were convenience / ease of use (including not having to go to the bank to deposit it) and better for tracking when payments are received and reconciling accounts. Supplementary reasons, each cited by a few businesses included no fees incurred (as there are with card payments), more secure as they do not have to have cash ‘lying around’, a better method if customers are regularly transferring large sums of money, and a customer preference for online transfers.

"{Online banking} is nice and easy. I don't get charged ... it's nice and tidy I suppose. I have internet banking on my phone so it's easy to see when payments come in."

Small business, Other service activities, high opportunity/acceptance

"It's easier to track. We can open up the banking website and see everything that is going on. We can relay everything to each individual customer and it's also linked to our accounting software so it all works seamlessly."

Mid-size business, Wholesale and retail, low opportunity/acceptance

"A lot of work is high value. People wouldn't want to pay it on a card, they would want to bank transfer it."

Mid-size business, Construction, high opportunity/acceptance

One business, providing translation and language teaching services, that preferred customers to pay by bank transfer or direct debit said they actively dissuaded the use of cheques by their customers and only accepted them with an admin fee. If more of their customers requested to pay by cash they would impose an admin fee for that too:

“For me it would be a nuisance {to take cash}...we don't receive cheques, as we make it clear on our invoices that paying by cheque attracts an admin fee. If we had lots of customers wanting to pay in cash we would probably do the same thing.”

Small business, Professional, scientific and technical activities, high opportunity/acceptance

One business said they preferred card payments since they found it more convenient for cashing up at the end of the day and means they do not have to go to the bank to deposit cash.

“We always say that ‘our preferred method of payment is by card but we will accept cash’, we sort of put it like that.”

Small business, Arts, Entertainment and Recreation, low opportunity/acceptance

Finally, one business in the accommodation and food services sector (a hotel) said they encourage the use of cash payments for extra services like meals. Also when guests are checking-out they will ask them how they want to pay but say they prefer cash, so that they can reduce the fees they pay for card merchant services.

Attitudes towards cash payments

The qualitative interviews explored respondents' attitudes towards cash payments in general and to what extent paying in cash is a frequent or rare occurrence.

Among the 29 respondents there was a clear preference for digital payments, primarily card transactions. Most explained that paying in cash was a rarity – both in terms of them personally paying in cash day-to-day and their customers choosing to pay in cash.

*“Why carry hundreds of pounds worth of cash around if you don't need to?
With card payments the way they are, it's just much easier to pay by card.”*

Small business, Information and Communication, high opportunity/acceptance

However, some businesses said they regularly use cash or prefer cash when making payments, particularly for small transactions.

Barriers to paying in cash

The most commonly expressed barrier to using cash was that it was deemed inconvenient, for example having to travel to the bank to deposit cash. The full range of reasons were as follows:

- Some felt that handling cash during the Covid-19 pandemic was to be avoided, to help minimise the spread of the virus.

*“From a personal point of view, I will rarely use it {cash}, to be honest.
I don't think I have used cash for ages, it's just so much easier to use my card, so*

convenient. I find money quite dirty to hold now anyhow - especially with Covid around.”⁷

Mid-size business, Construction, high opportunity/acceptance

- A few businesses noted that it was difficult to find ATM machines (or ones that worked) in order to obtain cash.

“I think it’s fiddly, time consuming trying to find cash machines that actually work. I begrudge paying to get your own cash out of the bank (via ATMs that charge).”

Mid-size business, Education, high opportunity/acceptance

- A few businesses tried to avoid carrying cash as it made them feel unsafe, at risk of it being stolen.

“I don’t like carrying cash around with me, it makes me feel vulnerable.”

Small business, Wholesale and retail, low opportunity/acceptance

- It was also noted that cash was deemed inappropriate for high value transactions.

Drivers to paying in cash

In terms of using cash, the most commonly expressed driver was that cash was appropriate for low value transactions. It was also felt to be easier to keep track of what you have spent and generally simpler/easier. In addition to this, cash was believed to be good for supporting small/local businesses that are not set-up to accept digital payments.

“I don’t really like bank transfers etc. Using cash means I know how much I have in my purse.”

Mid-size business, Education, high opportunity/acceptance

A couple of respondents noted that they pay (in a personal context) in cash when a particular business requests payment in cash. Both respondents gave examples of beauty salons, which had signs up saying they only accepted cash.

“It did cross my mind that they’re not paying tax and that does annoy me to some extent.”

Small business, Human health and social work activities, low opportunity/acceptance

One business remarked that they preferred to pay cash in restaurants and hospitality, as a way of tipping staff, or to have cash on their person to tip taxi drivers.

“{Tipping in a restaurant} That’s not about getting them to avoid paying tax – that’s about making sure that the person who does the work gets the reward.”

⁷ [For evidence on the transmission of COVID via banknotes please see Bank of England’s study – Cash in the time of COVID](#) which concludes that risk of transmission from handling cash should be low.

Small business, Human health and social work activities, low opportunity/acceptance

One remarked that they like paying in cash as it avoids financial service providers taking commission.

“The more people deal in cash, the less the card companies can get their 3% or whatever it is, for not doing much.”

Small business, Manufacturing, low opportunity/acceptance

5 Impact of Covid-19

This chapter covers the following impacts of the Covid-19 pandemic:

- Challenges over the last six months and future outlook
- The proportion of businesses surveyed that had made changes to the payments methods accepted as a result of Covid-19, and if so, what changes.
- Qualitative findings on reasons for continuing to accept cash throughout the Covid-19 pandemic and among those who did not accept cash what were the implications of this and the reaction from customers.
- The proportion of businesses surveyed that had made changes to the payment methods encouraged, and if so, what changes.

Challenges over the last six months and future outlook

The qualitative interviews explored how businesses have found the last six months and what have been the biggest challenges. Unsurprisingly, given the current Covid-19 pandemic, most businesses felt that it had been challenging. Challenges flagged by businesses included adapting to the lockdown rules and changing regulations, business closures, and uncertainty regarding the future. Many businesses had faced financial challenges and some expressed concerns around furloughing staff and redundancies, as well as looking after staff welfare.

“Well as a business it has been horrendous. We've dropped somewhere in the region of 70% in terms of turnover, but we have been very lucky in terms of furlough and have not had to make any redundancies, which I would have felt very guilty about.”

Mid-size business, Wholesale and retail trade, low opportunity/acceptance

Other specific challenges varied by business sector. For example, businesses in the health and social care sector mentioned access to personal protective equipment as a challenge, while those in education had found school closures and education delivery to be difficult. Several businesses felt that they had been particularly busy due to the pandemic. This was mentioned especially by businesses that sell goods online.

“Every cloud has a silver lining and I have inherited the silver lining on this one. We have never been busier.”

Small business, Manufacturing, high opportunity/acceptance

Businesses had mixed feelings about the future. While some worried about the future, many felt cautiously optimistic. Businesses found it difficult to predict what would happen, but generally expected Covid-19 restrictions to continue for a while, and for this to have some impact on their business. Most felt more optimistic about the future than about the past six months. Some businesses expressed nervousness and apprehension, and a few felt that the next year would be very difficult for them.

“You can only hope can't you. Got to try and look on the bright side. Taking each day as it comes.”

Mid-size business, Education, high opportunity/acceptance

"I'm worried about whether people are going to be spending money...personal training is not a necessity...I'm worried about that and what it's going to be like when people do go back. You've got a lot of people losing their jobs as well. It's going to take a long time to recover I think."

Small business, Human health and social work activities, low opportunity/acceptance

The impact of Covid-19 on accepted payment methods

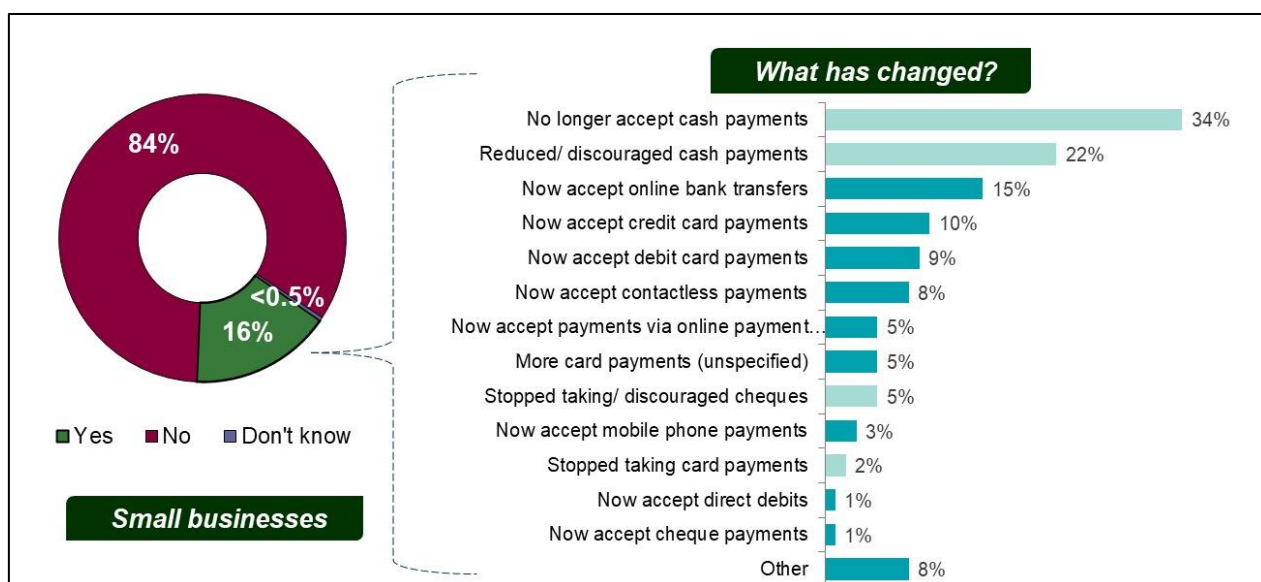
In the survey businesses were asked whether the payment methods they are willing to accept have changed since Covid measures were introduced back in March 2020.

Small businesses

As presented in Figure 5.1, one in six small businesses (16%) had changed the payment options they were willing to accept since Covid measures were introduced. The bar chart in Figure 5.1 shows the way in which payment options had changed with lighter bars showing what they had stopped doing or discouraged and the darker bars showing what they had started accepting or encouraging. There was a move away from cash with a third (34%) of those that had changed the payment options they accept no longer accepting cash payments and over one in five (22%) discouraging or reducing acceptance of cash payments. Furthermore, 5% had stopped taking or discouraged cheques and 2% had stopped taking card payments.

Some small businesses had started taking online bank transfers (15%) or various types of card payments: credit card (10%), debit card (9%), contactless payments (8%).

Figure 5.1 Whether payment methods accepted have changed since Covid measures were introduced, and if so how – small businesses



B1a. Have the payment options you are willing to accept changed since Covid measures were introduced in March? Base: All small businesses (1,227)

B1b. What has changed? Base: Small businesses whose payment options have changed (197)

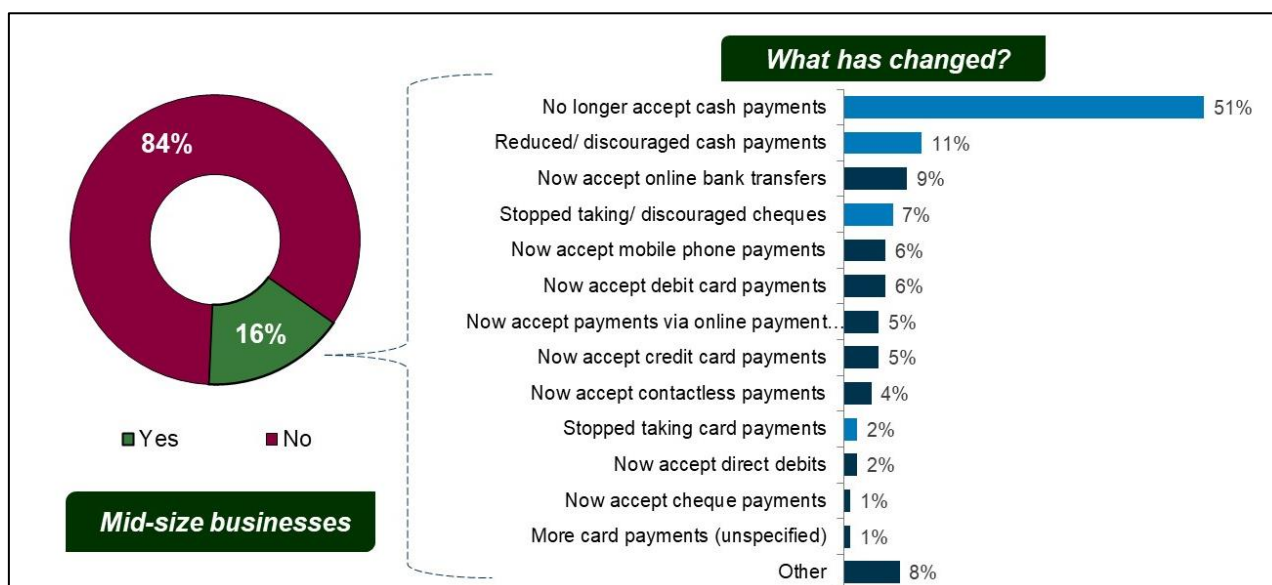
Mid-size businesses

One in six mid-size businesses (16%) had also changed the payment options they were willing to they accept since Covid measures were introduced; as presented in Figure 5.2.

The most likely action taken was to no longer accept cash – half (51%) of those that had changed the payment options they accept had made this change. Other payment options they had stopped taking are shown in the light blue bars: reduced or discouraged cash payments (11%) and stopped taking or discouraged cheques (7%).

In terms of encouraging certain payment options (navy blue bars in Figure 5.2), there were fewer changes here but the most common ones were now accepting bank transfers (9%), mobile phone payments (6%) or debit card payments (6%).

Figure 5.2 Whether payment methods accepted have changed since Covid measures, and if so how – mid-size businesses



B1a. Have the payment options you are willing to accept changed since Covid measures were introduced in March? Base: All mid-size businesses (643)

B1b. What has changed? Base: Mid-size businesses whose payment options have changed (106)

Attitudes towards accepting cash payments through the Covid-19 pandemic

The qualitative interviews explored what businesses had done in relation to accepting cash during the Covid-19 pandemic.

Continuing to accept cash payments throughout the pandemic

In the qualitative interviews, businesses that had continued to accept cash payments throughout the Covid-19 pandemic were asked why that was and about any positive or negative impacts arising.

There was a wide range of reasons given for continuing to take cash, with no one reason dominating. The most common theme that emerged was the nature of their customer base requiring it. Some mentioned the nature of their customers necessitating acceptance of cash because they were: older and prefer cash; or people with learning disabilities needing to get used to handling cash; or vulnerable people who don't have a bank account.

"We are an inclusive organisation. Our clients, who have learning disabilities don't have a bank account."

Mid-size business, Education, high opportunity/acceptance

A few mentioned that they rarely take cash but will continue to do so to accommodate customer preference.

"We would probably get a cash payment once a year, if at all, but if somebody said to me 'I need to pay in cash, is that okay?' I would say that was fine."

Small business, Human health and social work activities, low opportunity/acceptance

Two businesses remarked that taking a digital payment was not feasible or practical due to the nature of their business. One was a small angling business providing fishing boat trips who said it was not possible to take card payments from walk-ups to the boat, as there is no electricity in the boat, so he prefers in that instance to accept cash. The other was a removals firm that preferred accepting cash at weekends, as they cannot confirm bank transfers over the weekend and they were working more weekends during March 2020 lockdown. They felt there would be no advantage to not accepting cash.

A couple of businesses said they dislike taking card payments as they do not like the card company taking a percentage of the payment.

"If I take cash, obviously I don't have to pay fees, because if I take card payments then there's going to be a charge on them".

Small business, Information and Communication, high opportunity/acceptance

Of the businesses that had continued to take cash payments, many had not considered stopping doing so, whilst some said it would not have been possible as certain customers would not have been able to pay in other ways:

"Some of our private {disabled} clients wouldn't be able to do that {i.e. pay in ways other than cash}."

Small business, Human health and social work activities, low opportunity/acceptance

When asked about other potential disadvantages of stopping taking cash payments, businesses voiced the following additional concerns:

- A few mentioned potential loss of revenue.
- A couple mentioned that it would not be customer-focused if they were unable to meet a customer preference for cash payment; they wished to retain that flexibility.
- One business said they only take cash payments very rarely, so it is not a big impact, but they are happy to accept such payments on those rare occasions.
- One business said there would be no advantage to stopping taking cash, so did not see why they would do so.

Not accepting cash payments throughout the pandemic

During the qualitative interviews, several businesses said they had not (or not always) accepted cash payments throughout the Covid-19 pandemic. Many reported that this was simply because they never accept cash. Some said that their business mainly handled high value transactions and so it was not appropriate for these to be taken in cash payments.

A couple of businesses highlighted the inconvenience of holding cash and having to go to the bank to deposit it, on the rare occasions they did accept it. Furthermore, a couple of businesses said that being a rural or geographically dispersed operation would make that even more impractical.

The impact of Covid-19 on payment preferences

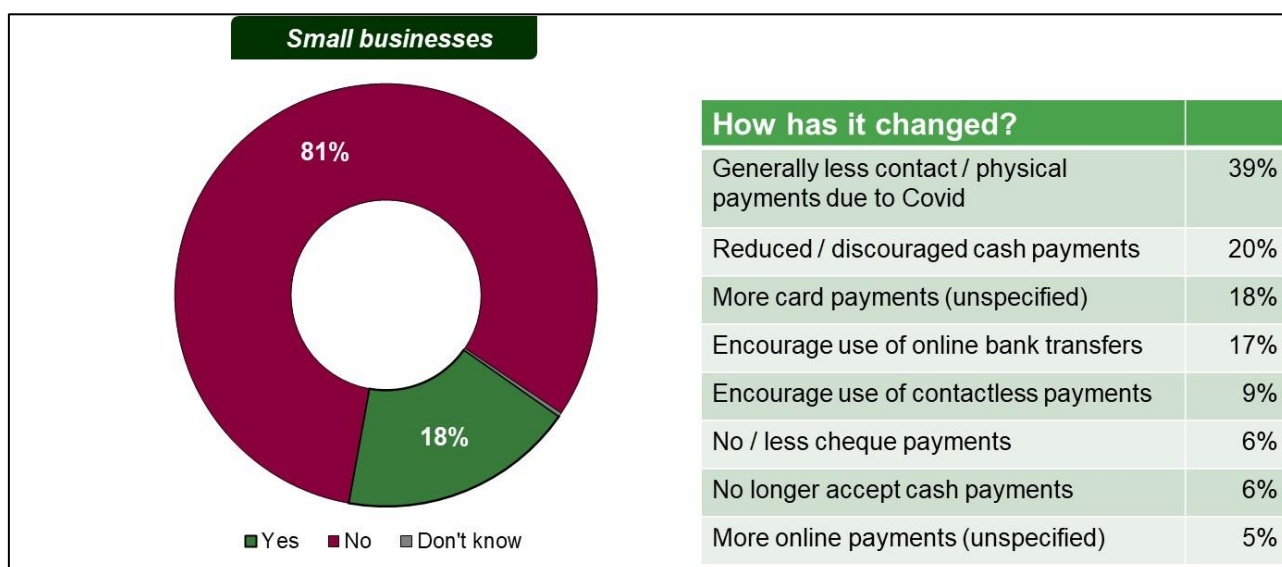
During the survey, businesses that said they encouraged particular payment methods were asked if the payment method encouraged had changed as a result of Covid.

Small businesses

Around one in six small businesses (18%) had changed the payment method(s) they encouraged, due to Covid-19. As shown in Figure 5.3, the change(s) made in response to the Covid-19 pandemic were most often to try to reduce physical contact in general (39%). This was most often by discouraging cash payments (20%), taking more card payments (18%) or encouraging online bank transfers (17%).

A minority also said they had encouraged use of contactless (9%) or online payments (5%), or dissuaded cheque payments (6%). Furthermore 6% no longer accepted cash at all as a result of the pandemic.

Figure 5.3 Whether payment methods encouraged have changed since Covid measures, and if so how – small businesses



C10a. Has the payment method you encourage changed as a result of Covid? Base: All small businesses who encourage certain method(s) (738)

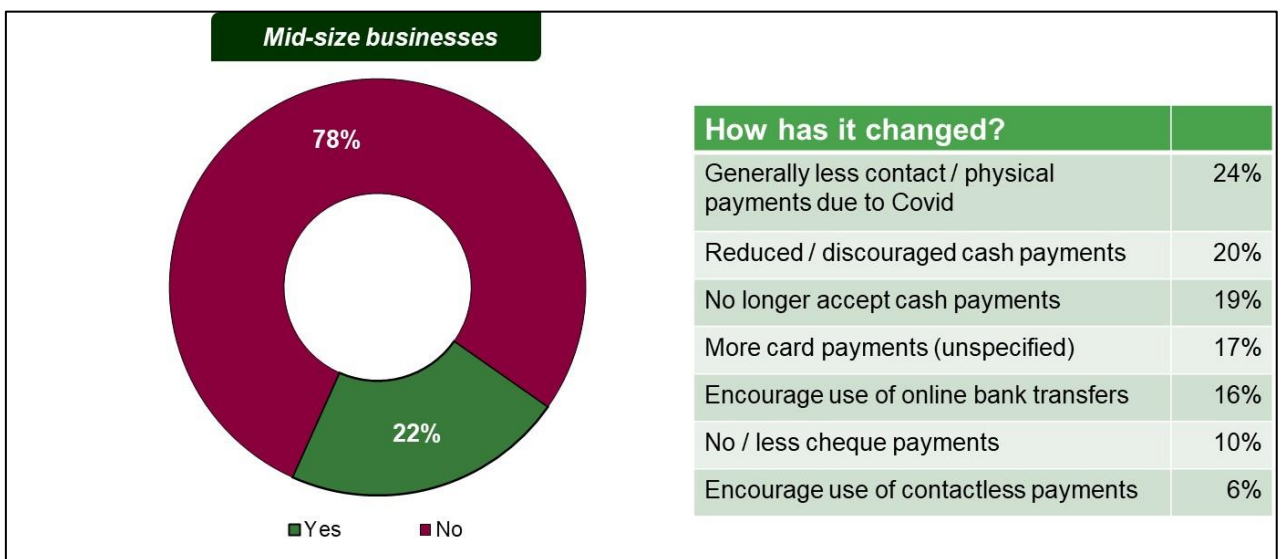
C10b. How has it changed? Base: All small businesses who have changed the payment method encouraged (148)

Mid-size businesses

Around one in five mid-size businesses (22%) had changed the payment method(s) they encouraged because of Covid-19. Figure 5.4 shows that the change(s) made in response to the Covid-19 pandemic were most often to try to reduce physical contact in general (24%) and did this by discouraging cash payments (20%) or ceasing them altogether (19%). Payments by cheque were also discouraged by some (10%).

There was an uptick in encouraging card payments (17%), online bank transfers (16%) or contactless payments (6%).

Figure 5.4 Whether payment methods encouraged have changed since Covid measures, and if so how – mid-size businesses



C10a. Has the payment method you encourage changed as a result of Covid? Base: All mid-size businesses who encourage certain method(s) (454)

C10b. How has it changed? Base: All mid-size businesses who have changed the payment method encouraged (95)

6 Volume of sales, fees and expectations for the future

This chapter reports the proportion of sales that came from each payment method in 2019-20, whether businesses expect any changes in the financial year 2020-21 and if so, what the expected change is. The chapter then covers the costs associated with accepting the different payment methods, first exploring direct costs (for example transaction fees and hardware costs) and then any other costs (for example staff time and general administration).

Proportion of sales from each payment method

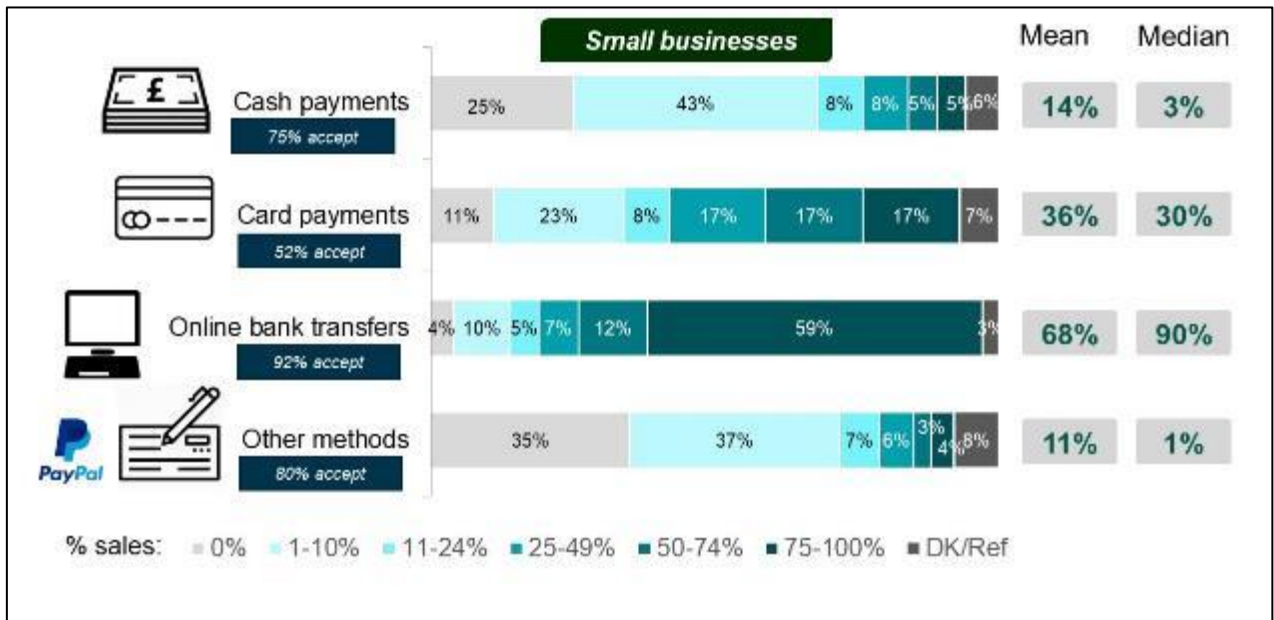
Proportion of sales in financial year 2019-20 from each payment method accepted

Businesses were asked what proportion of their sales came from cash payments, card payments, online bank transfers, and other payment methods in the last financial year (2019-20).

Small businesses

Cash payments typically made up no more than 10% of sales for those businesses that accepted them, as illustrated in Figure 6.1. The mean proportion of sales from cash payments was 14%. In contrast, for businesses that accepted card payments these made up a mean of 36% of sales, and for businesses that accepted online bank transfers this was the dominant payment method contributing a mean of 68% of sales.

Figure 6.1 Proportion of sales in 2019-20 from each payment method accepted among small businesses



B2. Thinking about your business' approximate turnover for the last financial year, i.e. to the end of March 2020, what proportion of your sales came from.....each payment method? Base varies by row – all small businesses accepting each payment method: cash payments (947); card payments (726); online bank transfers (1,098); other payment methods (966)

Significant differences amongst sub-groups

Cash payments:

Self-employed individuals and those with a turnover of under £50,000 were significantly more likely to report most (75-100%) of their turnover coming from cash payments (7% and 9% respectively). This was also significantly more likely among businesses that operated in agriculture; electricity; water supply; mining and quarrying; transportation and storage sectors (13%), and those in human health and social work; arts and entertainment; and other service activities sectors (9%). Small businesses that were located in Scotland (11%) and those that typically sold to consumers rather than to businesses (8%) were also significantly more likely to report most (75-100%) of their sales coming from cash payments.

In contrast, businesses were significantly more likely to report none of their sales coming from cash payments if they operated in professional, scientific and technical; admin and support services; public administration and defence sectors (41%). Small businesses located in London (35%) and the South East (31%) and those that sell mainly to other businesses (50%) were also significantly more likely to report that cash payments had not accounted for any of their turnover for the last year.

Card payments:

Small businesses that operated in wholesale and retail (22%), accommodation and food service activities (40%), or human health and social work; arts and entertainment; and other service activities sectors (23%) were significantly more likely to report most (75-100%) of their sales coming from card payments. This was also true of those who typically sold to consumers rather than to businesses (24%).

In contrast, self-employed individuals (17%) and those with a turnover of under £50,000 (15%) were significantly more likely to report none of their sales coming from card payments. This was also true of businesses that operated in professional, scientific and technical; admin and support services; public administration and defence sectors (17%). Small businesses located in the East of England (18%) or London (18%) and those that sold mainly to businesses (20%) were also significantly more likely to report no sales coming from card payments.

Online bank transfers:

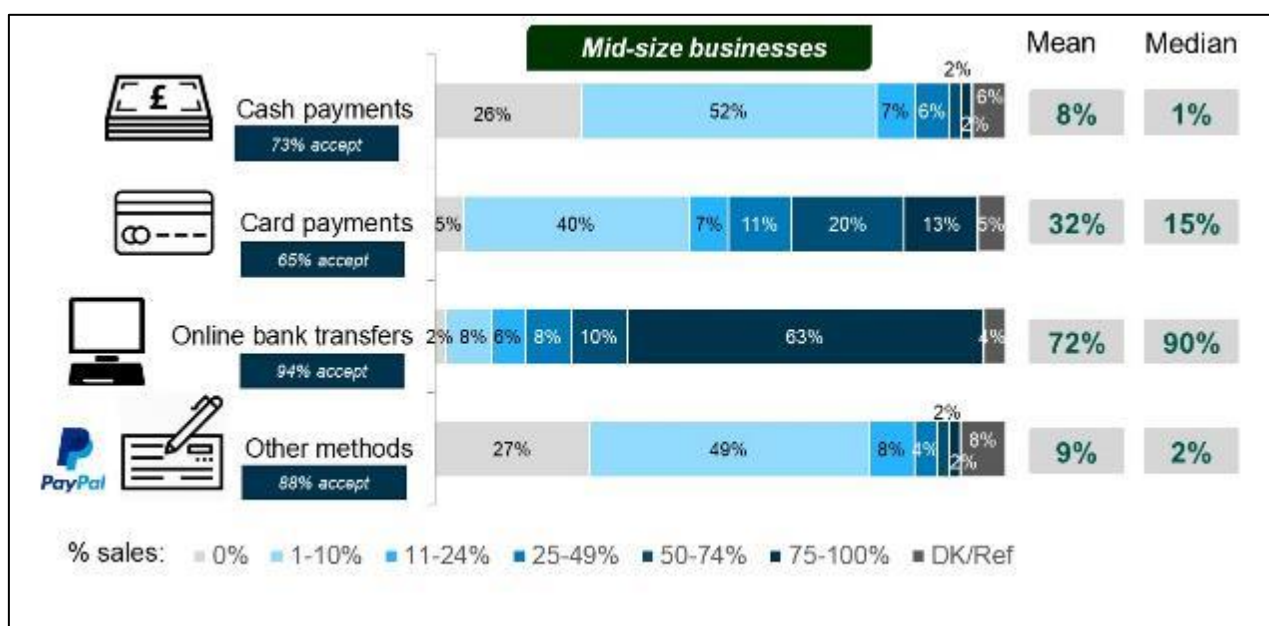
Small businesses with 1-9 employees (62%) and those in construction (75%), in finance and insurance; information and communication; and real estate activities (76%), or in professional, scientific and technical; admin and support services; public administration and defence sectors (76%) were significantly more likely to report most (75-100%) of their sales coming from online bank transfers. This was also significantly more likely among small businesses that were located in London (71%) and those that mainly sold to businesses (84%).

In contrast, small businesses operating in wholesale and retail (7%), accommodation and food service activities (17%) or human health and social work; arts and entertainment; and other service activities sectors (7%) were significantly more likely to report none of their sales coming from bank transfers. They were also significantly more likely to report this if they sold mainly to consumers (7%).

Mid-size businesses

As with small business, mid-size businesses that accepted cash payments typically reported that they made up 10% or less of their sales, with a mean proportion of 8%, as illustrated in Figure 6.2. In contrast, the mean proportion of sales from card payments among those businesses that accepted them was 32%, and the mean proportion of sales from online bank transfers among businesses that accepted them was 72%, demonstrating that as with small businesses, online bank transfers were the most dominant payment method.

Figure 6.2 Proportion of sales in 2019-20 from each payment method accepted among mid-size businesses



B2. Thinking about your business' approximate turnover for the last financial year, i.e. to the end of March 2020, what proportion of your sales came from.....each payment method? Base varies by row – all mid-size businesses accepting each payment method: cash payments (487); card payments (381); online bank transfers (601); other payment methods (572)

Significant differences amongst sub-groups

Cash payments:

Mid-size businesses in human health and social work; arts and entertainment; and other service activities sectors (9%) were significantly more likely to report most (75-100%) of their sales coming from cash payments. However, mid-size businesses in manufacturing (38%) or professional, scientific and technical; admin and support services; public administration and defence sectors (38%) were significantly more likely to report no sales coming from cash payments, as were those that sold mainly to businesses rather than to end consumers (47%).

Card payments:

Mid-size businesses in the accommodation and food service activities sector were significantly more likely to report most (75-100%) of their sales coming from card payments (34%), as were those that sold mainly to end consumers (23%). In contrast, mid-size businesses that sold mainly to businesses were significantly more likely to report no sales coming from card payments (8%).

Online bank transfers:

Mid-size businesses in the manufacturing sector (78%), those situated in the West Midlands (80%) and those that sold mainly to other businesses (85%) were significantly more likely to report most (75-100%) of their sales coming from online bank transfers.

In contrast, mid-size businesses in human health and social work; arts and entertainment; and other service activities sectors (5%) were significantly more likely to report none of their sales coming from online bank transfers, as were those that sold mainly to consumers (4%).

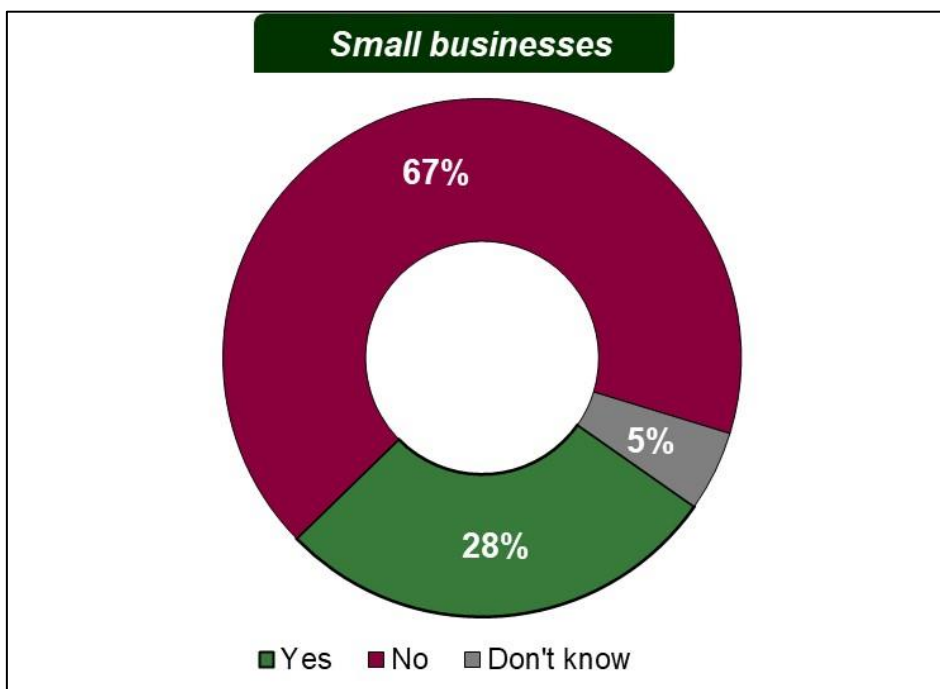
Proportion of sales expected in financial year 2020-21 from each payment method accepted

Businesses were asked whether they think that the proportion of sales from each payment method will differ in 2020-21 compared to 2019-20, and if so, what proportion they expect will come from cash payments, card payments, online bank transfers, and other payment methods.

Small businesses

As presented in Figure 6.3, around one in three small businesses expected the proportion of sales coming from each payment method to be different in 2020-21 (28%). Those in accommodation and food services (47%) and human health and social work; arts and entertainment; other service activities sectors (41%) were significantly more likely to expect a difference. These sectors include some of those most likely to be affected by the Covid-19 pandemic.

Figure 6.3 Whether small businesses expect the proportion of turnover from each payment method to be different in 2020-21



B2a. Do you think that these percentages will be different this financial year? Base: Small businesses that accept more than one payment method and were able to estimate what proportion of turnover came from each payment method (1,126)

Cash payments:

Among small businesses that accepted cash payments and were able to confirm their expectations for 2020-21, most expected the proportion of sales coming from cash payments in this financial year to stay the same as in 2019-20 (78%). One in five expected the proportion of sales from cash payments to decrease (20%), while only 1% said they expected it to increase.

Small businesses in the accommodation and food service activities (41%) and those in human health and social work; arts and entertainment; other service activities (29%) were significantly more likely to report an expected decrease in sales via cash payments in 2020-21. Those with 10-19 employees were significantly more likely to expect a decrease (29%).

Card payments:

Among small businesses that accepted card payments and were able to confirm their expectations for 2020-21, seven in ten expected the proportion of sales via this payment method to stay the same (70%). There was an opposite trend to cash payments, with 22% reporting an expected increase in the proportion of sales from card payments, while 8% expected a decrease.

Small businesses in accommodation and food service activities (43%) were significantly more likely to report an expected increase in sales via card payments. Meanwhile, those in human health and social work; arts and entertainment; other service activities sectors (14%) were significantly more likely to expect a decrease.

Online bank transfers:

Of small businesses that accepted online bank transfers and were able to confirm their expectations for 2020-21, eight in ten (80%) expected the proportion of sales via this method in this financial year to stay the same as in the last financial year. As with card payments, most of the small businesses that expected a change anticipated an increase in the proportion of sales coming from online bank transfers (15%), while 5% anticipated a decrease.

Small businesses in the human health and social work; arts and entertainment; other service activities sectors were significantly more likely to report an expected increase in sales via online bank transfers this financial year (24%). Self-employed individuals were also significantly more likely to report an expected increase (19%), while those with 1-9 employees significantly more likely to expect a decrease (7%).

Other payment methods:

Nine-in-ten (90%) small businesses that accepted other payments methods and were able to give an answer expected the proportion of sales coming from these payment methods to stay the same in 2020-21. Meanwhile, 4% expected an increase and 6% expected a decrease in sales.

Again, small businesses in the human health and social work; arts and entertainment; other service activities sectors were significantly more likely to report an increase in sales via other payment methods (12%), whereas those in the accommodation and food service activities sector were significantly more likely to expect a decrease (20%). Small businesses in the South West were also significantly more likely to report an expected decrease (11%).

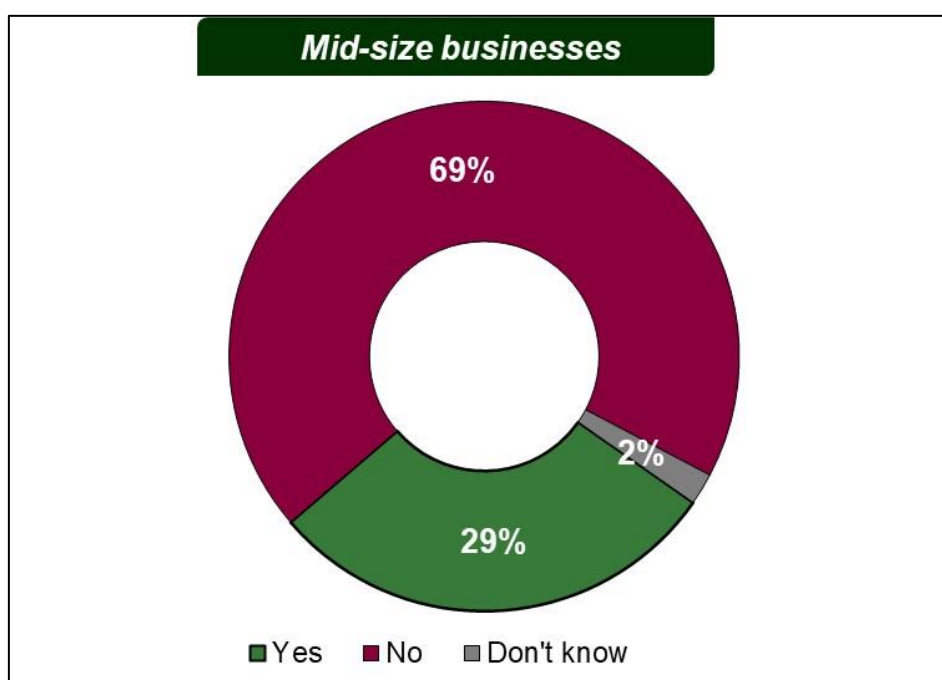
All payment methods:

A full breakdown of expected sales via each payment method where a change was anticipated can be found in Appendix C.

Mid-size businesses

As with small businesses, around one in three mid-size businesses reported that they expect the proportion of sales coming from each payment method will be different in 2020-21 (29%). This was significantly more likely among those in the accommodation and food services sector (53%).

Figure 6.4 Whether mid-size businesses expect the proportion of turnover from each payment method to be different in 2020-21



B2a. Do you think that these percentages will be different this financial year? Base: Mid-size businesses that accept more than one payment method and were able to estimate what proportion of turnover came from each payment method (603)

Cash payments:

Among mid-size businesses that accepted cash payments and were able to confirm their expectations for 2020-21, 78% expected the proportion of sales coming from cash payments to stay the same as in 2019-20. Just over one in five mid-size businesses (22%) expected the proportion of sales from cash payments to decrease, while just 1% expected it to increase.

Card payments:

Among mid-size businesses that accepted card payments and were able to confirm their expectations for 2020-21, seven in ten (70%) expected the proportion of sales coming from card payments to stay the same as in 2019-20. Unlike with cash payments, 25% of mid-size businesses expected the proportion of sales from card payments to increase, while 5% expected it to decrease.

Online bank transfers:

Of mid-size businesses that accepted online bank transfers and were able to confirm their expectations for 2020-21, four in five (82%) expected the proportion of sales coming from online bank transfers to stay the same as in 2019-20. As with card payments, most of the mid-size businesses that expected a change anticipated an increase in the proportion of sales coming from online bank transfers (15%), while 4% anticipated a decrease.

Mid-size businesses situated in the North West were significantly more likely to report an expected increase in the proportion of sales coming from online bank transfers in 2020-21 (23%).

Other payment methods:

Most mid-size businesses that accepted other payments methods and were able to confirm their expectations for 2020-21 expected the proportion of sales coming from these payment methods to stay the same (87%). Meanwhile, 2% expected an increase and 11% expected a decrease in sales from these payment methods.

Mid-size businesses in the Education sector (7%) were more like to expect an increase in sales through other payment methods in 2020-21, while those in the North West were significantly more likely to report a decrease (19%).

All payment methods:

A full breakdown of expected sales via each payment method where a change was anticipated can be found in Appendix C.

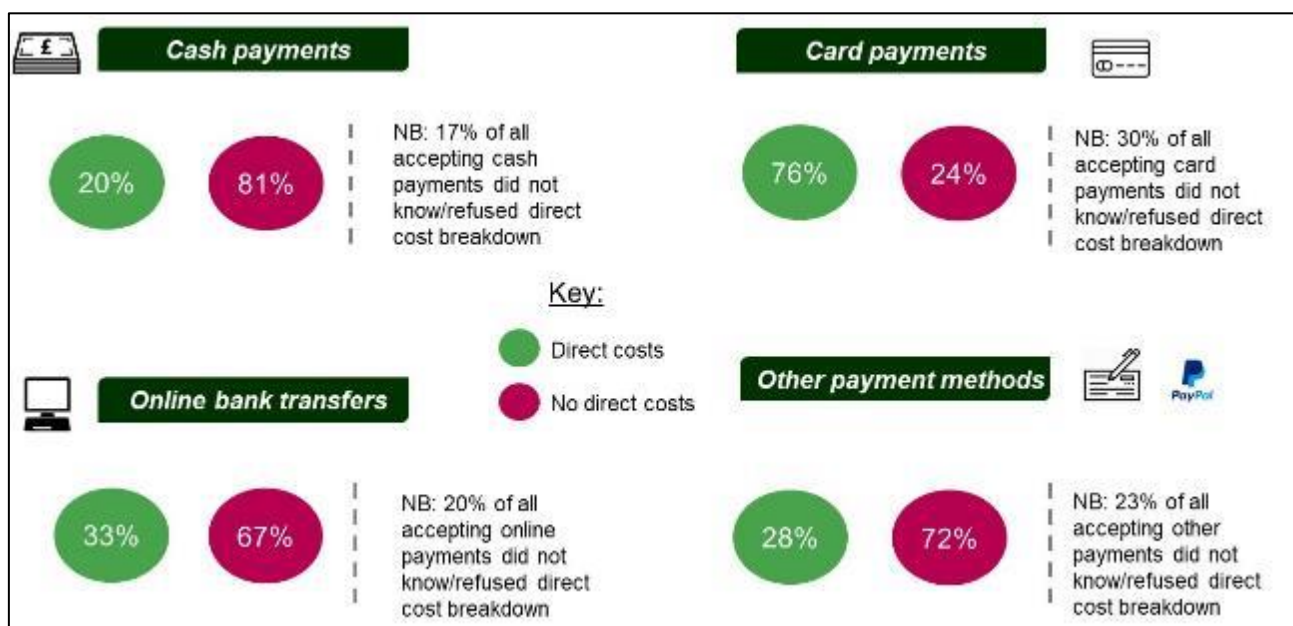
Direct costs incurred for each payment method

Businesses were asked what direct costs they incurred for each payment method. They were asked to include all transaction fees, service charges, and the rental or purchase cost of hardware required. Costs presented in this section are not linked to the volume or value of payments made/received via each payment method. The costs provided for each payment method are based on respondent recall only and are not verified as absolute.

Small businesses

Figure 6.5 shows the proportion of small businesses that accepted each payment method and were able to either provide a breakdown of costs or confirm that there were no direct costs. Card payments were most likely to be reported as having direct cost (76%). A third had direct costs associated with online bank transfers (33%) and around one in three had direct costs associated with other payment methods (28%). Cash payments were less likely to have a definitive direct cost (20%).

Figure 6.5 Direct costs associated with payment types (small businesses)

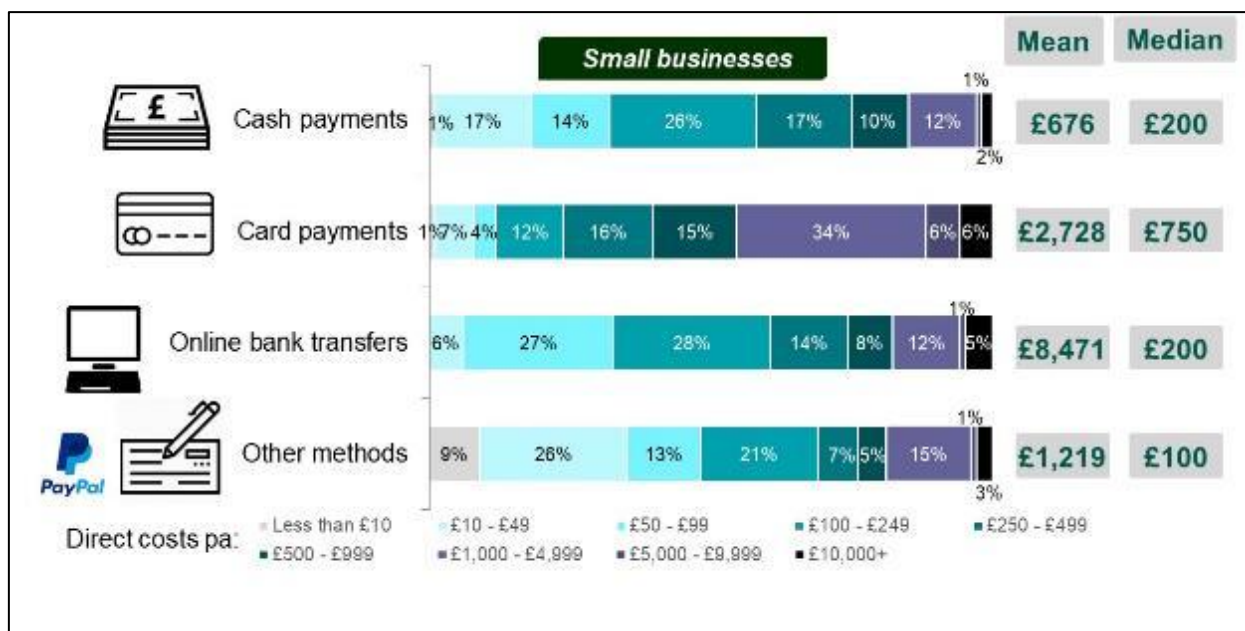


B3. What are the direct cost you incur for all payments received each payment method? Please include all transaction fees, service charges and the rental or purchase cost of hardware required? Base varies - All accepting cash payments and able to provide a cost breakdown or confirm there were no direct costs (771); All accepting card payments and able to provide a cost breakdown or confirm there were no direct costs (507); All accepting online bank transfers and able to provide a cost breakdown or confirm there were no direct costs (874); All accepting other payment methods and able to provide a cost breakdown or confirm there were no direct costs (737). Please note where the figures do not add to 100%, this is due to rounding.

Only a minority of small businesses that accepted cash payments provided a one-off direct cost for these (1%). The mean cost provided was £92 and the median cost was £9. The mean one-off cost for card payments was £355 and the median cost was £100, while the mean one-off cost for online bank transfers was £138 and the median cost was £2, among small businesses that accepted these payment methods. The mean one-off cost provided for other payment methods was £91 and the median cost was £2.

Among small businesses that provided ongoing direct costs for the payment methods that they accepted, the highest mean costs were for online bank transfers at £8,471 per annum, as presented in Figure 6.6. The second highest mean costs were for card payments at £2,728 per annum, and then for other payment methods at £1,219 per annum. The lowest mean direct costs were for cash payments at £676 per annum.

Figure 6.6 Annual direct costs associated with each payment method accepted among small businesses

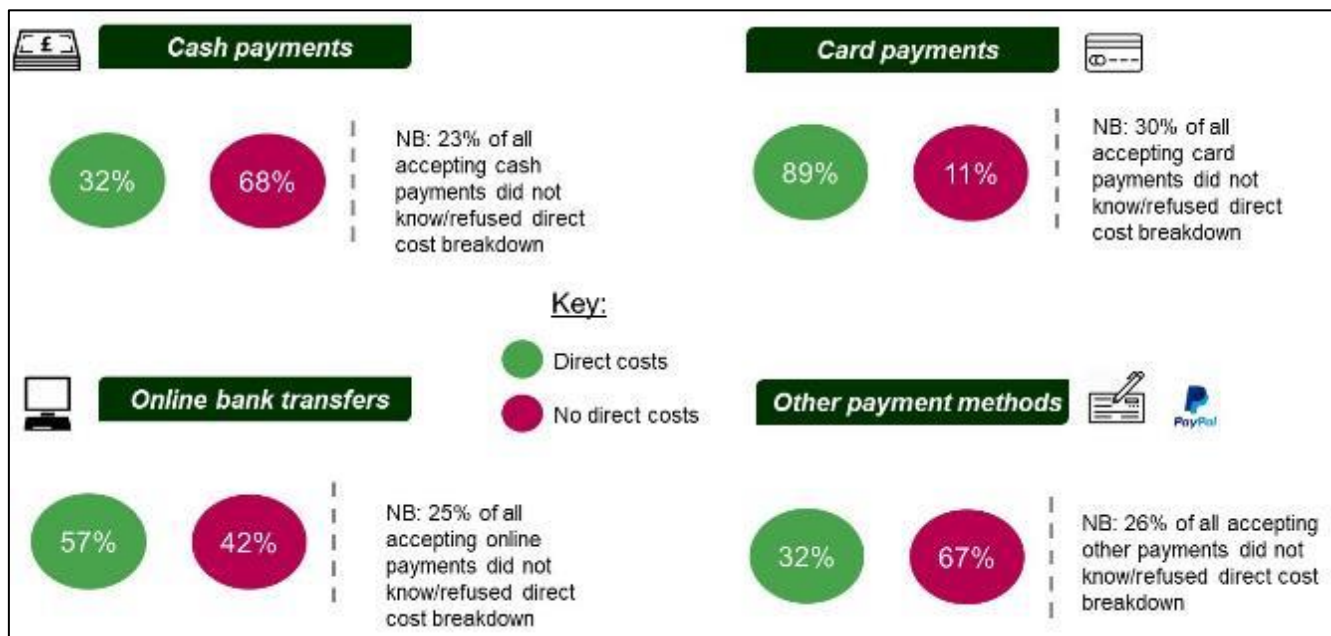


B3. What are the direct costs you incur for all payments received each payment method? Please include all transaction fees, service charges and the rental or purchase cost of hardware required. Base varies by row – all small businesses accepting each payment method and provided ongoing direct costs (per month, per quarter or per year): cash payments (143); card payments (387); online bank transfers (270); other payment methods (200)

Mid-size businesses

Figure 6.7 shows the proportion of mid-size businesses that accepted each payment method and were able to either provide a breakdown of costs or confirm that there were no direct costs. Card payments were most likely to be reported as having direct cost (89%). Over half reported that they had direct costs associated with online bank transfers (57%) and around a third had direct costs associated with cash payments and other payment methods (32%).

Figure 6.7 Direct costs associated with payment types (mid-size businesses)

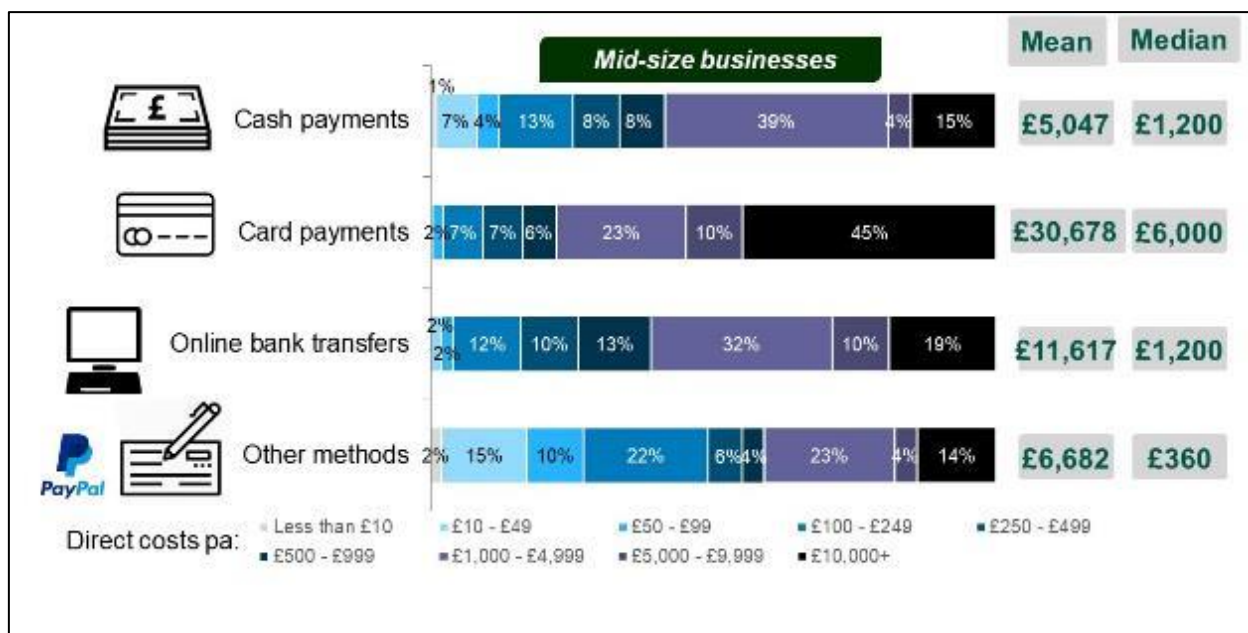


B3. What are the direct cost you incur for all payments received each payment method? Please include all transaction fees, service charges and the rental or purchase cost of hardware required? Base varies - All accepting cash payments and able to provide a cost breakdown or confirm there were no direct costs (391); All accepting card payments and able to provide a cost breakdown or confirm there were no direct costs (264); All accepting online bank transfers and able to provide a cost breakdown or confirm there were no direct costs (456); All accepting other payment methods and able to provide a cost breakdown or confirm there were no direct costs (428). Please note where the figures do not add to 100%, this is due to rounding.

Among mid-size businesses that provided ongoing direct costs for the payment methods that they accepted, the highest mean costs were for card payments at £30,678 per annum, as presented in Figure 6.8. The second highest mean costs were for online bank transfers at £11,617 per annum, and then for other payment methods at £6,682 per annum. The lowest mean direct costs were for cash payments at £5,047 per annum.

Only a very small minority of mid-size businesses provided a one-off direct cost for the different payment methods and as such the figures have not been reported.

Figure 6.8 Annual direct costs associated with each payment method accepted among mid-size businesses



B3. What are the direct cost you incur for all payments received each payment method? Please include all transaction fees, service charges and the rental or purchase cost of hardware required. Base varies by row – all mid-size businesses accepting each payment method and provided ongoing direct costs (per month, per quarter or per year): cash payments (108); card payments (222); online bank transfers (231); other payment methods (136)

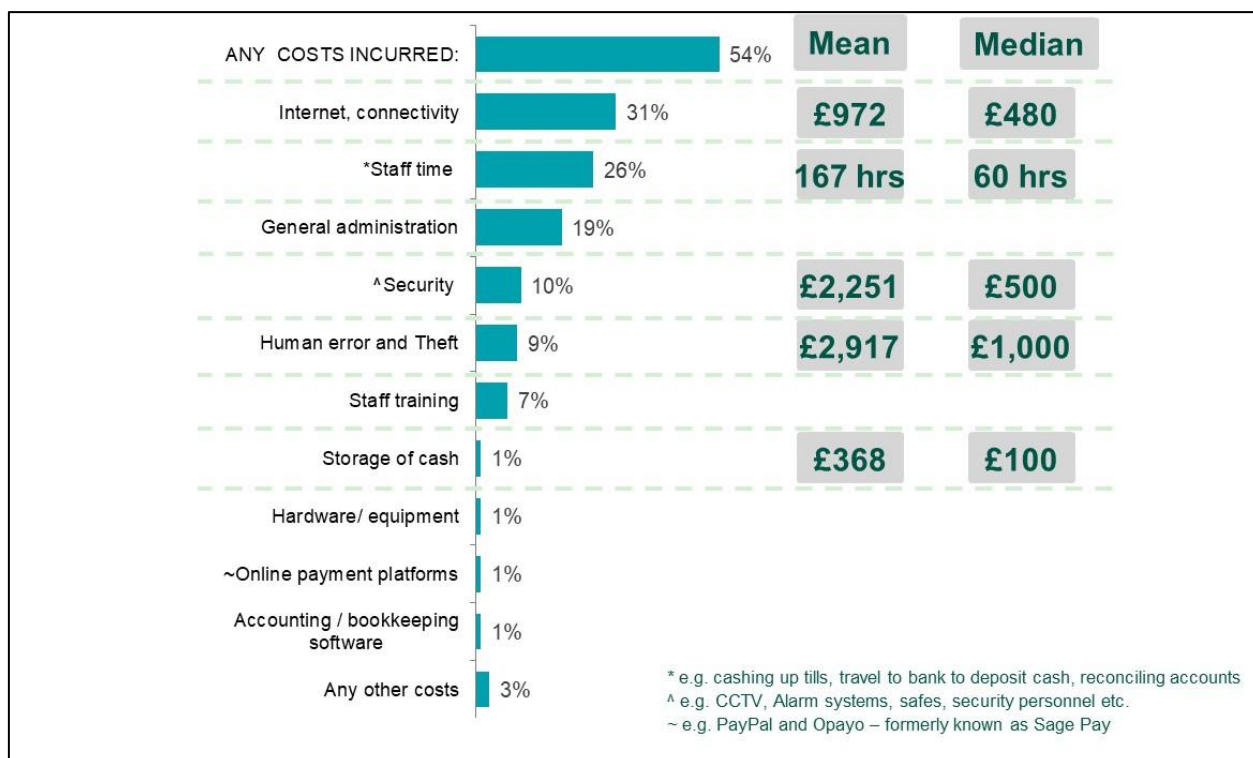
Other costs associated with payment methods

Businesses were asked if they have any other kinds of costs associated with accepting different payment methods, and if so, what these costs are. The costs provided are based on respondent recall only and are not verified as absolute. Some costs are arguably more difficult to breakdown, for example providing internet costs for accepting digital payment methods as opposed to internet costs for the whole business. Similarly, security costs such as CCTV and alarm systems are difficult to specifically attribute to the various payment methods accepted.

Small businesses

Just over half of small businesses (54%) incurred other costs associated with different payment methods, as presented in Figure 6.9. Most commonly, these costs were for internet and connectivity (31%), staff time (26%), and general administration (19%).

Figure 6.9 Other costs associated with the different payment methods accepted by small businesses



B4. Are there any other kind of costs associated with accepting these payment methods? Ongoing costs (per month, per quarter or per year) shown on p.a. basis. One-off costs not shown. Base: Small businesses (1,227)

The highest cost reported by small businesses was for human error and theft, with a mean cost of £2,917 per annum and a median cost of £1,000 per annum. Security (e.g. CCTV, alarm systems, safes, security personnel, etc.) was the second highest cost, with a mean cost to small businesses of £2,251 per annum, or a median cost of £500 per annum. Staff time, which was reported in hours, came at a mean cost of 167 hours per annum, or a median cost of 60 hours per annum.

For general administration and staff training, the costs to small businesses were split by payment method. Similar to staff time, these costs were reported in hours.

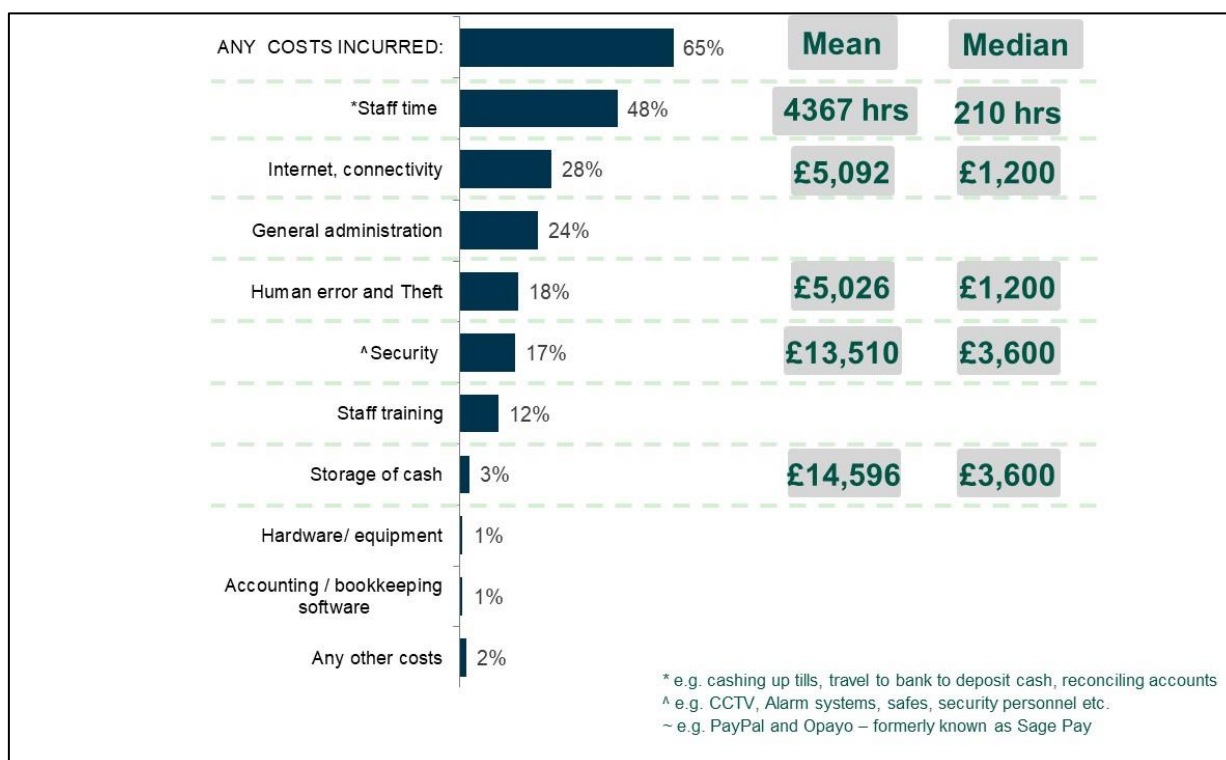
In terms of general administration, small businesses spent the most hours on online bank transfers (mean spend of 154 hours per annum; median spend of 48 hours per annum). This was followed by card payments (mean spend of 93 hours per annum; median spend of 24 hours per annum), cash payments (mean spend of 48 hours per annum; median spend of 12 hours per annum), and other payment methods (mean spend of 29 hours per annum; median spend of 2 hours per annum).

In terms of staff training, small businesses spent the most hours on card payments (mean spend of 83 hours per annum; median spend of 24 hours per annum). This was followed by online bank transfers (mean spend of 53 hours per annum; median spend of 16 hours per annum), cash payments (mean spend of 16 hours per annum; median spend of 4 hours per annum), and other payment methods (mean spend of 6 hours per annum; median spend of 0 hours per annum).

Mid-size businesses

Around two-thirds of mid-size businesses (65%) incurred other costs associated with different payment methods, as presented in Figure 6.10. Most commonly, these costs were for staff time (48%), internet and connectivity (28%), and general administration (24%).

Figure 6.10 Other costs associated with the different payment methods accepted by mid-size businesses



B4. Are there any other kind of costs associated with accepting these payment methods? Ongoing costs (per month, per quarter or per year) shown on p.a. basis. One-off costs not shown. Base: Mid-size businesses (643)

The highest indirect cost reported by mid-size businesses was for storage of cash, with a mean cost of £14,596 per annum and a median cost of £3,600 per annum. Security (e.g. CCTV, alarm systems, safes, security personnel, etc.) was the second highest cost, with a mean cost to mid-size businesses of £13,510 per annum, or a median cost of £3,600 per annum. Staff time, which was reported in hours, came at a mean cost of 4,367 hours per annum, or a median cost of 210 hours per annum.

For general administration and staff training, the costs to mid-size businesses were split by payment method. Similar to staff time, these costs were reported in hours.

In terms of general administration, similarly to small businesses, mid-size businesses spent the most hours on online bank transfers (mean spend of 527 hours per annum; median spend of 144 hours per annum). This was followed by card payments (mean spend of 421 hours per annum; median spend of 72 hours per annum), cash payments (mean spend of 283 hours per annum; median spend of 60 hours per annum), and other payment methods (mean spend of 102 hours per annum; median spend of 24 hours per annum).

In terms of staff training, mid-size businesses spent the most hours on card payments (mean spend of 36 hours per annum; median spend of 10 hours per annum). This was followed by cash payments (mean spend of 29 hours per annum; median spend of 8 hours per annum), online bank transfers

(mean spend of 22 hours per annum; median spend of 10 hours per annum), and other payment methods (mean spend of 20 hours per annum; median spend of 4 hours per annum).

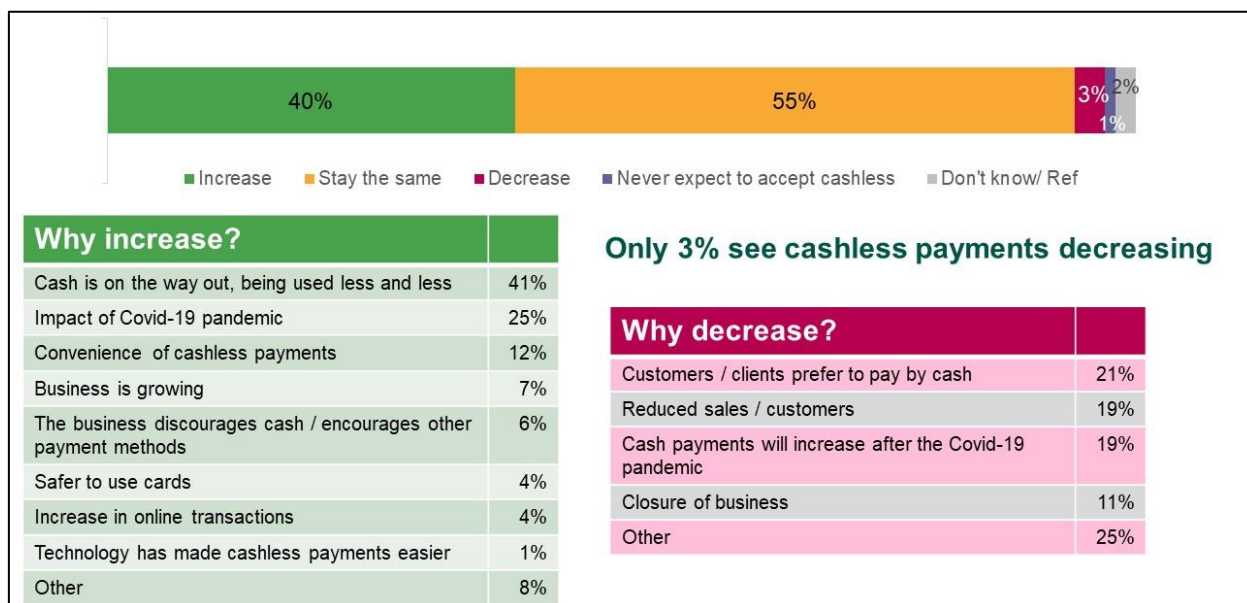
Future expectations for cashless payments

Businesses were asked whether they expect their use of cashless payments to increase, stay the same, or decrease in the future, and why they expect this. The minority of businesses that only accepted cash were also asked when they are likely to adopt cashless payments. Finally, businesses were asked whether anything is stopping them from increasing the amount of cashless transactions they accept.

Small businesses

As shown in Figure 6.11, the majority of small businesses expected their use of cashless payments to stay the same in the future (55%). Two-in-five small businesses (40%) expected their use of cashless payments to increase, while only 3% of small businesses expected their use of cashless payments to decrease and 1% said they never expect to accept cashless payments.

Figure 6.11 Small business expectations of cashless payments increasing, staying the same, or decreasing in the future



C12. Do you expect your use of cashless payments to increase, stay the same or decrease in the future? Base: All small businesses (1,227)

C13. Why do you think it will increase? Base: All small businesses who think it will increase (521)

C15. Why do you think it will decrease? Base: All small businesses who think it will decrease (30)

Small businesses were significantly more likely to say they expected cashless payments to increase if they:

- Had a turnover of less than £50,000 (45%);
- Operated in wholesale and retail (46%); accommodation and food service activities (60%); or human health and social work; arts and entertainment; and other service activities (49%);
- Were located in Wales (54%);

- Sold mainly to end consumers (49%); and
- Encouraged customers to use card payments (60%).

The most common reason given by small businesses that expected cashless payments to increase was because cash is being used less and less (41%). A quarter of businesses mentioned the impact of the Covid-19 pandemic (25%) and 12% thought that the convenience of cashless payments was the reason why they would increase.

Of the 3% of small businesses that expected cashless payments to decrease, some said this was because their customers or clients prefer to pay by cash. Others said this was because they had reduced sales or customers or because they expected cash payments to increase after the Covid-19 pandemic.

Small businesses that only accept cash and that expect cashless payments to increase were asked when they are likely to adopt cashless payments. Out of the four businesses that answered the question, three expected to adopt cashless payments over the next 12 months.

Barriers to increasing cashless transactions

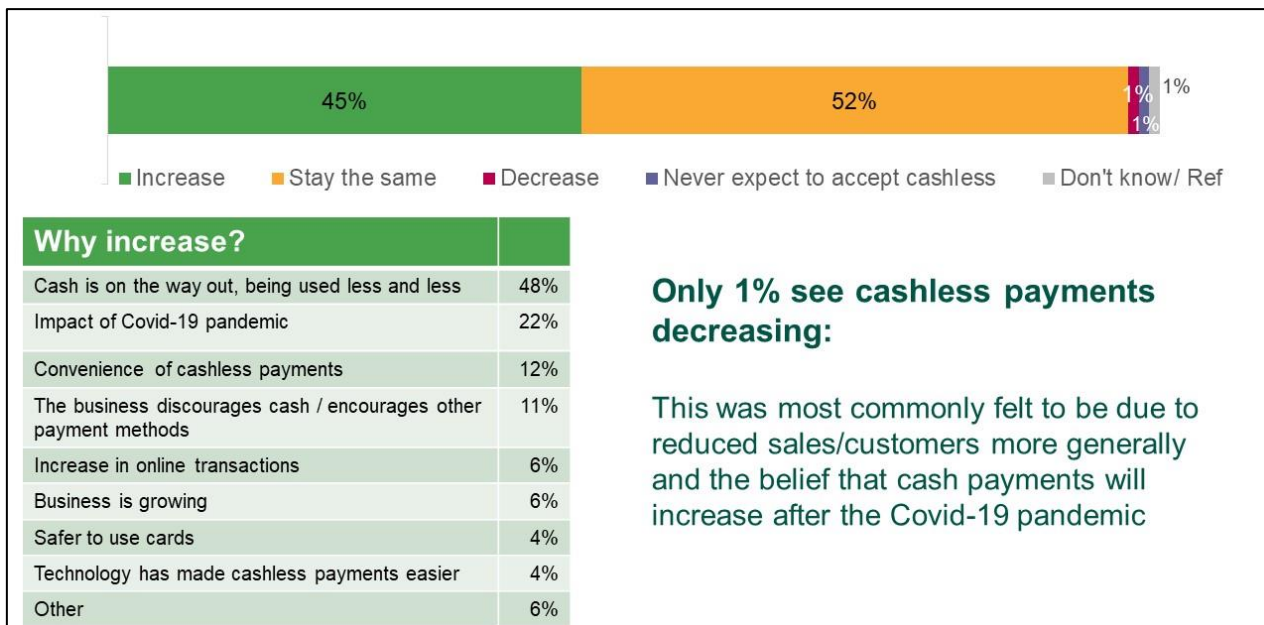
Businesses were asked if there was anything stopping them from increasing the amount of cashless transactions they accept. Over three-quarters (78%) of small businesses perceived no barriers and a further 5% of businesses were completely cashless already. The top perceived barrier to increasing cashless transactions was customer preference for using cash, reported by 5% of small businesses. Other barriers included transaction charges (2%), lack of sales or customers in general (2%), impact of the Covid-19 pandemic (2%), set-up or other costs (2%), lack of time (1%), nature of the business (1%), connectivity issues (1%), and a lack of card machine (1%).

Small businesses in the wholesale and retail sector (84%) and those located in the East Midlands (88%) were significantly more likely to perceive no barriers to increasing their cashless transactions. Meanwhile, those with a turnover of less than £50,000 (74%) and those situated in Yorkshire and the Humber (69%) were significantly less likely to perceive no barriers to increasing their cashless transactions.

Mid-size businesses

As shown in Figure 6.12, over half (52%) of mid-size businesses expected their use of cashless payments to stay the same. Approaching half of mid-size businesses (45%) expected their use of cashless payments to increase in the future, while only 1% expected their use of cashless payments to decrease.

Figure 6.12 Mid-size business expectations of cashless payments increasing, staying the same, or decreasing in the future



C12. Do you expect your use of cashless payments to increase, stay the same or decrease in the future? Base: All mid-size businesses (643). C13. Why do you think it will increase? Base: All mid-size businesses who think it will increase (282). C15. Why do you think it will decrease? Base: All mid-size businesses who think it will decrease (10)

Mid-size businesses were significantly more likely to say they expected cashless payments to increase if they:

- Operated in accommodation and food service activities (67%);
- Sold mainly to end consumers (59%); and
- Encouraged customers to use card payments (59%).

Similarly to small businesses, the most common reason given by mid-size businesses that expected cashless payments to increase was because cash is being used less and less (48%). Over a fifth of businesses mentioned the impact of the Covid-19 pandemic (22%), and 12% thought that the convenience of cashless payments was the reason why they would increase.

Only 1% of mid-size businesses expected cashless payments to decrease. This was most commonly felt to be due to reduced sales or customers, and the belief that cash payments will increase after the Covid-19 pandemic.

Barriers to increasing cashless transactions

Over three-quarters (76%) of mid-size businesses perceived no barriers to increasing the amount of cashless transactions that the business accepts. A further 8% of businesses were completely cashless already. The top perceived barrier to increasing cashless transactions was customer preference for using cash, reported by 8% of mid-size businesses. Other barriers included set-up or other costs (1%), connectivity issues (1%), nature of the business (1%), and a lack of sales or customers (1%).

Mid-size businesses with less than 250 employees (77%) and those located in the West Midlands (88%) were significantly more likely to perceive no barriers to increasing their cashless transactions.

7 General views on cash payments and paying tax

This chapter explores businesses' views on cash-based tax evasion, including views on cash payments and paying tax, drawing on both findings from the qualitative interviews and responses to the scenarios covered in the survey. Businesses' views on the UK tax system, including the level of tax paid, meeting tax system requirements and any perceived barriers to complying with tax obligations are presented in Appendix F.

Views on cash payments and paying tax – scenarios

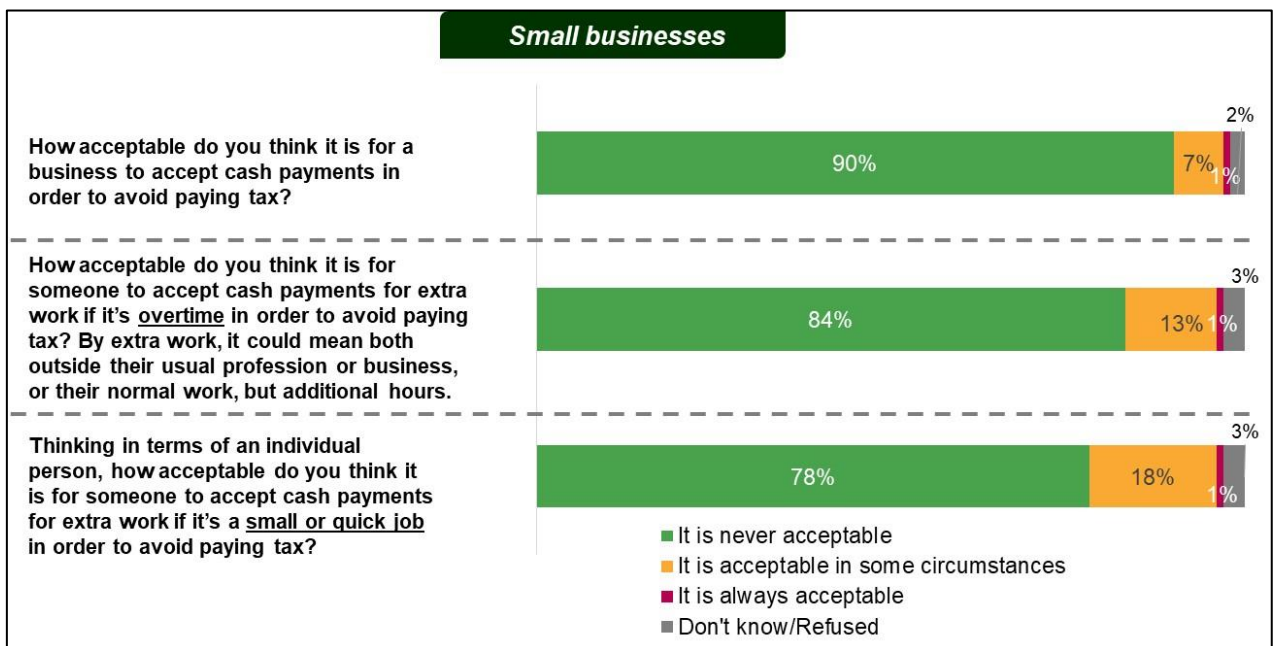
During the survey businesses were asked to provide their views on some different scenarios related to cash payments and paying tax: how acceptable they think it is for a business to accept cash payments in order to avoid paying tax, to accept cash payments for extra work if it's overtime in order to avoid paying tax, and to accept cash payments for extra work if it's a small or quick job in order to avoid paying tax.

Small businesses

The majority of small businesses were against the use of cash to facilitate evasion. Nine in ten businesses (90%) said it is never acceptable for a business to accept cash payments in order to avoid paying tax. 7% felt it was acceptable in some circumstances and just 1% reported that it was always acceptable.

When asked to think in terms of an individual person, a higher proportion of small businesses felt tax evasion would be acceptable to some extent. Around one in five (19%) thought it was either acceptable in some circumstances or always acceptable to take cash payments for a small or quick job in order to avoid paying tax. Around one in seven deemed it sometimes or always acceptable to accept cash payments for overtime in order to avoid paying tax (13%).

Figure 7.1 Views on cash payments and paying tax among small businesses



D1. How acceptable do you think it is for a business to accept cash payments in order to avoid paying tax? Base: All small businesses (1,227)

D2. Thinking in terms of an individual person, how acceptable do you think it is for someone to accept cash payments for extra work if it's a small or quick job in order to avoid paying tax? Base: All small businesses (1,227)

D3. How acceptable do you think it is for someone to accept cash payments for extra work if it's overtime in order to avoid paying tax? By extra work, it could mean both outside their usual profession or business, or their normal work, but additional hours. Base: All small businesses (1,227)

Significant differences amongst sub-groups

Looking at how acceptable it is for a business to accept cash payments in order to avoid paying tax, those self-employed (11%) and those based in Yorkshire and the Humber (16%) were significantly more likely to think it is either sometimes or always acceptable. However, this view was significantly lower among small businesses with a turnover of between £85,000 and £2m (6%) and those based in the South West (4%). A full breakdown by region can be found in Appendix E.

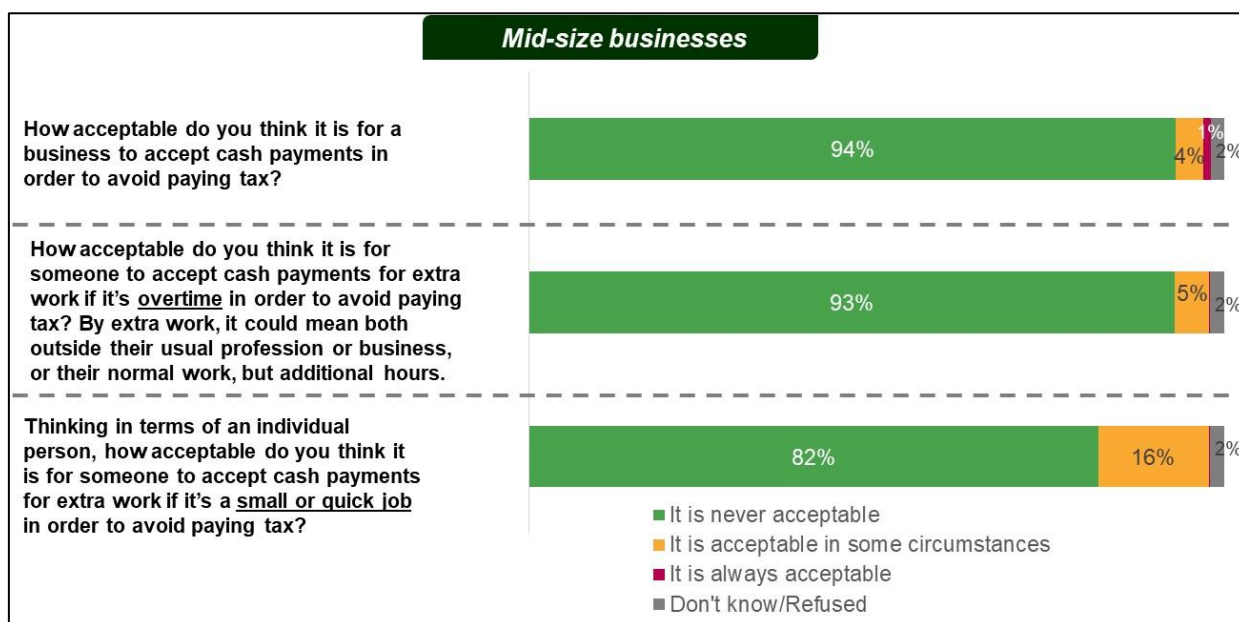
In terms of taking cash payments for extra work if it is a small or quick job to avoid paying tax, those self-employed (24%), those with a turnover of under £50,000 (23%) and those based in Yorkshire and the Humber (29%) were significantly more likely to deem it sometimes or always acceptable. Small businesses with 1-9 employees were significantly less likely to deem it acceptable at 17%.

Accepting cash payments for overtime in order to avoid paying tax was significantly more likely to be deemed acceptable to some extent among small businesses in London (18%) and those with a turnover of under £50,000 (17%). However, small businesses with 10-19 employees (5%) and those with a turnover of between £85,000 and £2 million (10%) were significantly less likely to hold this view. As were those situated in the South West (6%) or West Midlands (5%). A full breakdown of regional differences is shown in Appendix E.

Mid-size businesses

The vast majority of mid-size businesses were against the use of cash to facilitate evasion. Over nine in ten reported that it is never acceptable for a business to accept cash payments in order to avoid paying tax (94%) and for someone to accept cash payments for overtime in order to avoid paying tax (93%). One in six (16%) thought it was acceptable (sometimes or always) to take cash payments for small or quick jobs in order to avoid paying tax.

Figure 7.2 Views on cash payments and paying tax among mid-size businesses



D1. How acceptable do you think it is for a business to accept cash payments in order to avoid paying tax? Base: All mid-size businesses (643)

D2. Thinking in terms of an individual person, how acceptable do you think it is for someone to accept cash payments for extra work if it's a small or quick job in order to avoid paying tax? Base: All mid-size businesses (643)

D3. How acceptable do you think it is for someone to accept cash payments for extra work if it's overtime in order to avoid paying tax? By extra work, it could mean both outside their usual profession or business, or their normal work, but additional hours. Base: All mid-size businesses (643)

Significant differences amongst sub-groups

Looking at how acceptable it is for a business to accept cash payments in order to avoid paying tax, mid-size businesses in human health and social work; arts and entertainment; and other service activities sectors were significantly more likely to deem it acceptable to some degree (8%), as were those selling mainly to consumers (7%). Meanwhile, those with a turnover of £10 million or more (0%), those in the East Midlands (0%) and mid-size businesses selling mainly to other businesses (2%) were significantly less likely to deem it acceptable.

In terms of taking cash payments for extra work if it is a small or quick job to avoid paying tax, mid-size businesses in the West Midlands (27%) were significantly more likely to say it was acceptable to some degree, while those in the North West were significantly less likely at 2%. Those in the North West were also significantly less likely to feel it is acceptable to take cash payments for overtime in order to avoid paying tax (0%). A full breakdown of regional differences is shown in Appendix E.

Qualitative exploration of attitudes towards cash-based tax evasion

Attitudes towards tax evasion were explored further in the qualitative interviews. Several businesses felt cash-based evasion was always unacceptable from a moral standpoint and held the view that everyone following a set of standard rules makes it a fair system.

“We made a commitment to have a business and we understood that part of that commitment is to pay your tax bill and whatever that tax bill is.”

Small business, Human Health and Social Work Activities, low opportunity/acceptance

However, others felt it could depend on the circumstances. For example, if a person or business is struggling or if the monetary amount involved is small it could be deemed acceptable. Some businesses highlighted their empathy for those self-employed who struggle to pay their taxes. One business explained that if a small business owner was going through financial hardship, it could be acceptable to accept cash for a small job and not declare it. While another stated that doing overtime, for example, may take them into a higher tax bracket.

“It's such a grey area though. There is no one answer to this question...it would depend on the person and the situation.”

Small business, Other service activities, high opportunity/acceptance

One business explained that they feel a person should be rewarded for carrying out extra work or overtime (without increasing their tax liability).

“With extra work or overtime, they're doing the extra work as a favour and they should get something extra out of it.”

Mid-size business, Transport and Logistics, high opportunity/acceptance

One business explained how evasion could be justified for small transactions, where it was perceived it would cost HMRC more to process the payment than the value of tax they would receive from the sale, and in those cases they would consider it acceptable not to declare the sale.

“The only time I would consider it acceptable is from an efficiency point of view it would cost HMRC more to actually process the payment. For example if someone pays a couple of pounds for some veg at a market stall, by the time you've put that on the books and it's gone through all the accounts it's ended up costing more in administration than the actual value of tax you get from the sale in the first place.”

Small business, Information and Communication, high opportunity/acceptance

Perceptions of other businesses - cash payments and paying tax

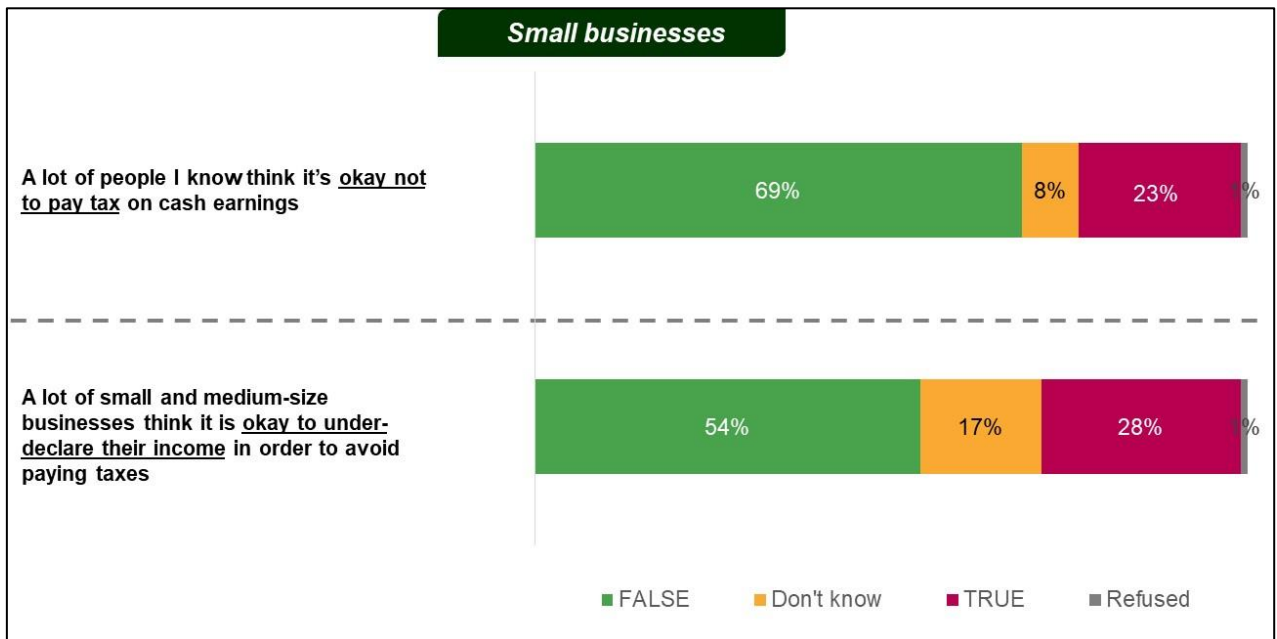
During the survey businesses were asked whether it was true or false that a lot of people they know think it's okay not to pay tax on cash earnings and whether a lot of small and medium-size businesses think it is okay to under-declare their income in order to avoid paying taxes.

Small businesses

As presented in Figure 7.3, around one in four small businesses perceived the general view among those they know to be that it is okay not to pay tax on cash earnings (23%). Those in Wales were significantly more likely to state this to be true (37%), whereas those in the Finance and Insurance; Information and Communication; Real Estate Activities sectors were significantly less likely (13%).

Over a quarter of small businesses (28%) deemed it true that a lot of small and mid-size businesses think it's okay to under-declare their income in order to avoid paying tax. This belief was significantly more likely among those in Yorkshire and the Humber (41%) and in the North in general (34%), but significantly less likely among those in the Manufacturing sector (19%).

Figure 7.3 Perceptions on cash payments and paying tax among small businesses



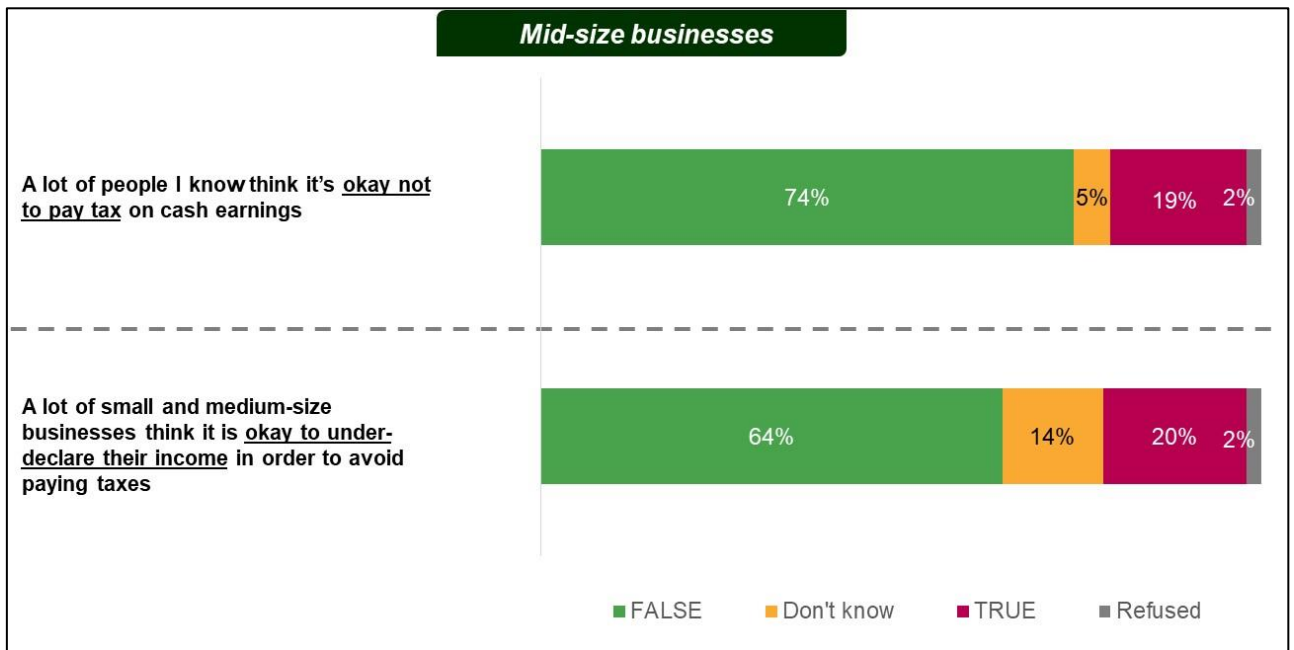
D4_1. Please tell me whether you believe the following statement to be true or false: A lot of people I know think it's okay not to pay tax on cash earnings. Base: All small businesses (1,227)

D4_2. Please tell me whether you believe the following statement to be true or false: A lot of small and medium-size businesses think it is okay to under-declare their income in order to avoid paying taxes. Base: All small businesses (1,227)

Mid-size businesses

Among mid-size businesses, one in five perceived the general view among those they know to be that it is okay not to pay tax on cash earnings, and that a lot of small and mid-size businesses think it is okay to under-declare income (19% and 20% respectively). Businesses with 250 or more employees were significantly more likely to state it is true that a lot of the people they know think it's okay not to pay tax on cash earnings (31%), as were those in the Manufacturing sector (28%). Businesses with 250 or more employees were also significantly more likely to report it true that a lot of small and mid-size businesses think it is okay to under-declare their income in order to avoid paying taxes (35%).

Figure 7.4 Perceptions on cash payments and paying tax among mid-size businesses



D4_1. Please tell me whether you believe the following statement to be true or false: A lot of people I know think it's okay not to pay tax on cash earnings. Base: All mid-size businesses (643)

D4_2. Please tell me whether you believe the following statement to be true or false: A lot of small and medium-size businesses think it is okay to under-declare their income in order to avoid paying taxes. Base: All mid-size businesses (643)

Qualitative exploration of perceptions of cash-based tax evasion

The qualitative interviews explored the extent to which businesses think cash-based tax evasion is widespread in the UK. Businesses provided a disparity of views with some believing it was uncommon, most notably due to the decline in the use of cash – which is backed-up by the quantitative data.

“Now cash-based tax evasion is virtually non-existent in terms of my experience over the last couple of years. You're always going to get the odd case where somebody sells something and they take cash in hand for it, but on a large scale I doubt there's much going on.”

Small business, Information and Communication, high opportunity/acceptance

Some businesses believed cash-based evasion to be fairly common. Reasons included the belief that people are heavily taxed, some people are struggling on low incomes, and the ease of doing it if one handles cash payments.

“You have someone come round your house to fix something and you give them cash, I could imagine they don't declare it all.”

Mid-size business, Education, high opportunity/acceptance

“Oh, it happens! I think very, very much so! When it's cash in a lot of places, it's not put through the books because no-one knows anything about it.”

Small business, Information and Communication high opportunity/acceptance

Businesses believed that cash-based tax evasion is more likely among the self-employed and small businesses. It was felt to be more common among some service industries, for example gardeners, plumbers, electricians, builders, decorators, taxi drivers and the hospitality sector. Newsagents and small retailers were also mentioned as they handle cash transactions.

When asked to consider what drives cash-based evasion, several implied it depends on who is doing it. The idea of it either being greed or simply trying to survive was put forward, as explained in the following quote.

"You can either call it greed, if you've got companies doing well but they want to make even more money by avoiding the tax, but I wouldn't call it greed if it's in a situation where a company is really struggling and they are trying to keep their taxes as low as possible just to survive."

Small business, Information and Communication, high opportunity/acceptance

Some businesses felt the drive to commit tax evasion was to save money or gain new customers by being able to offer a more competitive rate. Some felt the belief that there is unfairness with the system, for example that the level of tax they have to pay is too high, could drive evasion. A couple of businesses felt that tax evasion could be driven by a person's views on government spending or policies that taxes could be funding.

Most thought cash-based tax evasion has become less common over the past few years. This was generally felt to be because cash payments are in decline, with card and online payments more likely. A few businesses felt cash-based evasion is less common as there is more scrutiny from law enforcement, meaning it is harder to get away with it. However, a few believed cash-based evasion has become more common over recent years, as some people are desperate and there is deemed to be plenty of opportunity among those who deal in cash.

"People are getting very desperate and over the last few years the cost of living is getting harder and harder, so they are looking at creative ways of putting food on the table".

Small business, Arts, entertainment and recreation, low opportunity/acceptance

Meanwhile, a couple of businesses believed there had been no change in the likelihood of cash-based evasion over recent years.

8 Appendix A

Weighting

In order to assess whether there was a need to weight the data, IFF Research conducted a comparison of region and sector between the BEIS Business population estimates 2020 and those agreeing to take part in the survey. Question S9 (does the business have the facility to accept cash payments) was used to establish the businesses that were willing to take part in the survey. IFF conducted analysis on all businesses who responded to this question, regardless of whether or not they screened out.

The fall out by region of those agreeing to take part was consistent with the BEIS population, meaning that the achieved sample is representative in this respect. However, when comparing the sector of businesses agreeing to take part with the BEIS population, some discrepancies became apparent. IFF therefore weighted the two business populations by sector group. The weighting profiles are shown in Tables 8.1 and 8.2.

Table 8.1 Weighting profile for small businesses

Sector code	Sector	Derived population profile
A / B / D / E / H	AGRICULTURE, FORESTRY AND FISHING; ELECTRICITY, GAS, STEAM AND AIR CONDITIONING SUPPLY; WATER SUPPLY; SEWERAGE, WASTE MANAGEMENT AND REMEDIATION ACTIVITIES; MINING AND QUARRYING; TRANSPORTATION AND STORAGE	11.29%
C	MANUFACTURING	5.05%
F	CONSTRUCTION	16.70%
G	WHOLESALE AND RETAIL TRADE; REPAIR OF MOTOR VEHICLES AND MOTORCYCLES	10.44%
I	ACCOMMODATION AND FOOD SERVICE ACTIVITIES	4.11%
J / K / L	FINANCIAL AND INSURANCE ACTIVITIES; INFORMATION AND COMMUNICATION; REAL ESTATE ACTIVITIES	8.50%
M / N / O	PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES; ADMINISTRATIVE AND SUPPORT SERVICE ACTIVITIES; PUBLIC ADMINISTRATION AND DEFENCE, COMPULSORY SOCIAL SECURITY	17.91%
P	EDUCATION	5.48%
Q / R / S	HUMAN HEALTH AND SOCIAL WORK ACTIVITIES; ARTS, ENTERTAINMENT AND RECREATION; OTHER SERVICE ACTIVITIES	20.53%
TOTAL		100%

Table 8.2 Weighting profile for mid-size businesses

Sector code	Sector	Derived population profile
A / B / D / E / H	AGRICULTURE, FORESTRY AND FISHING; ELECTRICITY, GAS, STEAM AND AIR CONDITIONING SUPPLY; WATER SUPPLY; SEWERAGE, WASTE MANAGEMENT AND REMEDIATION ACTIVITIES; MINING AND QUARRYING; TRANSPORTATION AND STORAGE	7.32%
C	MANUFACTURING	13.17%
F	CONSTRUCTION	6.19%
G	WHOLESALE AND RETAIL TRADE; REPAIR OF MOTOR VEHICLES AND MOTORCYCLES	16.17%
I	ACCOMMODATION AND FOOD SERVICE ACTIVITIES	16.05%
J / K / L	FINANCIAL AND INSURANCE ACTIVITIES; INFORMATION AND COMMUNICATION; REAL ESTATE ACTIVITIES	7.03%
M / N / O	PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES; ADMINISTRATIVE AND SUPPORT SERVICE ACTIVITIES; PUBLIC ADMINISTRATION AND DEFENCE, COMPULSORY SOCIAL SECURITY	17.09%
P	EDUCATION	2.00%
Q / R / S	HUMAN HEALTH AND SOCIAL WORK ACTIVITIES; ARTS, ENTERTAINMENT AND RECREATION; OTHER SERVICE ACTIVITIES	14.98%
TOTAL		100%

9 Appendix B

Business profiling

Small businesses

Small businesses with 1-9 (37%) and 10-19 employees (42%) were significantly more likely to sell mainly to businesses than the self-employed (27%). Small businesses situated in the East of England were also significantly more likely to sell mainly to businesses (43%), as were those in the following sectors:

- Manufacturing (55%)
- Finance and insurance; information and communication; and real estate activities (59%)
- Professional, scientific and technical; admin and support services; and public administration and defence (57%)

Meanwhile, small businesses based in the South West (60%) and Scotland (69%) were significantly more likely to sell mainly to end consumers, as were those in the following sectors:

- Wholesale and retail (59%)
- Accommodation and food service activities (84%)
- Human health and social work; arts and entertainment; other service activities (72%)

Mid-size businesses

There was similar variation among mid-size businesses. Mid-size businesses in the following sectors were significantly more likely to sell mainly to other businesses:

- Manufacturing (79%)
- Wholesale and retail (62%)
- Professional, scientific and technical; admin and support services; public administration and defence (61%)

Meanwhile, mid-size businesses in the following sectors were significantly more likely to sell mainly to end consumers:

- Accommodation and food service activities (81%)
- Education (78%)
- Human health and social work; arts and entertainment; other service activities (58%)

10 Appendix C

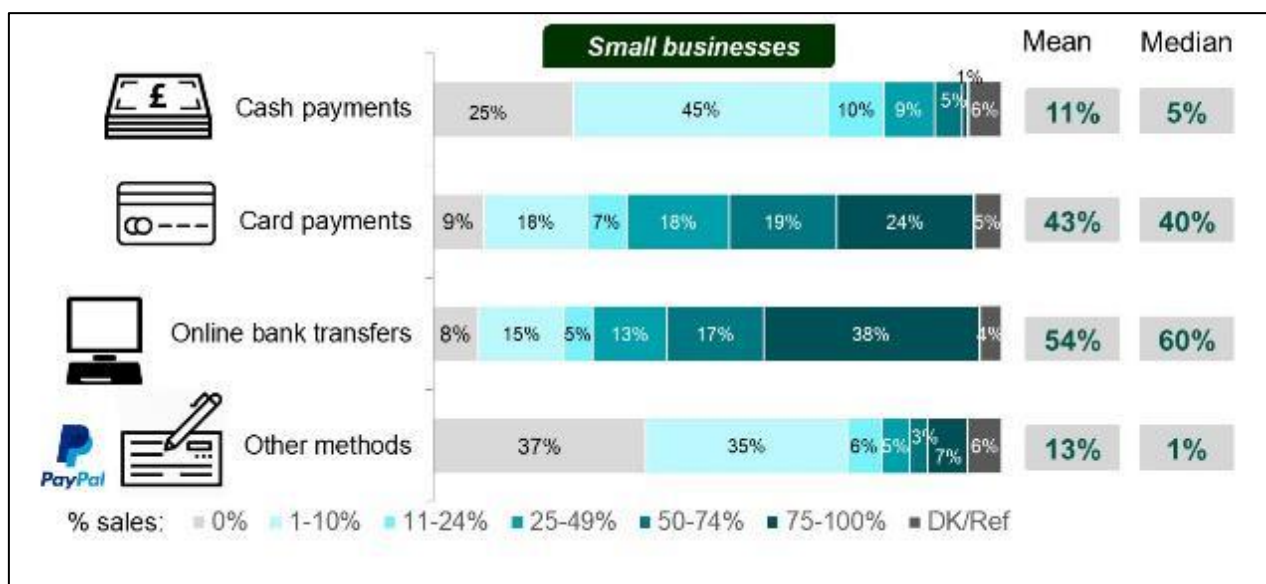
Proportion of sales expected in financial year 2020-21 from each payment method accepted

Businesses were asked whether they think that the proportion of sales from each payment method will differ in 2020-21 compared to 2019-20, and if so, what proportion they expect will come from cash payments, card payments, online bank transfers, and other payment methods.

Small businesses

Among small businesses that accepted cash payments and anticipated a change in the proportion of sales coming from cash payments in 2020-21 compared to 2019-20, cash was expected to account for a mean of 11% of sales (as presented in Figure 10.1). For most small businesses cash was still expected to account for up to 10% of their sales. Card payments were expected to account for a mean of 43% of sales, and online bank transfers were still expected to be most dominant with a mean of 54% of sales coming via this payment method.

Figure 10.1 Proportion of sales expected in 2020-21 from each payment method accepted, among small businesses that expected a change compared to the previous year

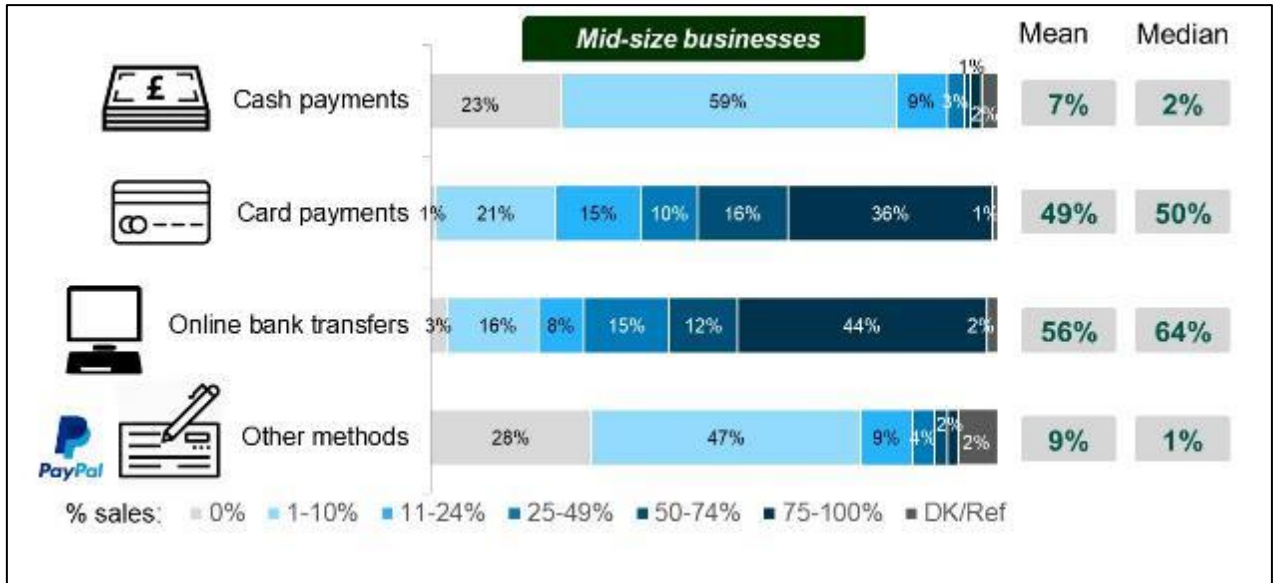


B2b. Thinking about this financial year, what proportion of your sales do you think will come from each payment method? Base varies by row – all small businesses accepting each payment method, who think it will be different this year: cash payments (296); card payments (254); online bank transfers (288); other payment methods (261)

Mid-size businesses

As illustrated in Figure 10.2, among mid-size businesses that accepted cash payments and that anticipated a change in the proportion of sales that would come from cash payments in 2020-21, cash was expected to account for a mean of 7% of sales. Meanwhile, among businesses that accepted card payments and anticipated a change, card payments were expected to account for a mean of 49% of sales. Businesses that accepted online bank transfers and anticipated a change expected this payment method to account for a mean of 56% of sales.

Figure 10.2 Proportion of sales in 2020-21 from each payment method accepted, among mid-size businesses that expected a change compared to the previous year



B2b. Thinking about this financial year, what proportion of your sales do you think will come from each payment method? Base varies by row – all mid-size businesses accepting each payment method, who think it will be different this year: cash payments (148); card payments (119); online bank transfers (148); other payment methods (146)

11 Appendix D

























Sectoral breakdowns of key survey questions

Results that are significantly higher compared to other businesses are shown with a green upward arrow. Results that are significantly lower compared to other businesses are shown with a red downward arrow.

Payment methods accepted by businesses

Small businesses




















Figure 11.1 Payment methods accepted by small businesses, by sector

				
Row percentages	Cash	Any online bank transfers	Any card payments	Any other methods
ALL SMALL BUSINESSES (1,227)	75%	92%	52%	80%
Human health and social work; Arts and entertainment; Other service activities (199)	88% 	89% 	60% 	83%
Agriculture; Electricity; Water Supply; Mining and Quarrying; Transportation and Storage (82)	84% 	87% 	52%	80%
Wholesale and Retail (282)	83% 	88% 	75% 	76%
Accommodation and food service activities (143)	83% 	65% 	78% 	60% 
Education (59)	81%	100% 	58%	88%
Manufacturing (102)	72%	97%	61%	90% 
Finance and Insurance; Information and Communication; Real Estate Activities (63)	70%	98%	33% 	84%
Professional, scientific and technical; Admin and support services; Public administration and defence (187)	63% 	97% 	46%	83%
Construction (110)	62% 	98% 	33% 	75%

B1. Which of the following payment methods would you accept from your customers? Base: All small businesses (1,227)
 “Any other methods” includes cheque, online payment methods e.g. PayPal, Govt funded schemes e.g. childcare vouchers, cryptocurrency e.g. Bitcoin, BACS, Vouchers (unspecified)

Mid-size businesses

Figure 11.2 Payment methods accepted by mid-size businesses, by sector




















				
Row percentages	Cash	Any online bank transfers	Any card payments	Any other methods
ALL MID-SIZE BUSINESSES (643)	73%	94%	65%	88%
Accommodation and food service activities (57)	86% 	74% 	93% 	60% 
Education (152)	84% 	89% 	44% 	89%
Human health and social work; Arts and entertainment; Other service activities (112)	84% 	95%	54% 	89%
Wholesale and Retail (68)	71%	96%	78% 	97% 
Professional, scientific and technical; Admin and support services; Public administration and defence (79)	70%	100% 	48% 	96% 
Manufacturing (81)	64%	100% 	68%	94%

B1. Which of the following payment methods would you accept from your customers? Base: All mid-size businesses (643) “Any other methods” includes cheque, online payment methods e.g. PayPal, Govt funded schemes e.g. childcare vouchers, cryptocurrency e.g. Bitcoin, BACS, Vouchers (unspecified). Sectors with a base size under 50 are not included.

Payment methods encouraged by businesses

Small businesses











Figure 11.3 Payment methods encouraged by small businesses, by sector

				
Row percentages	Cash	Any online bank transfers	Any card payments	Any other methods
ALL SMALL BUSINESSES (738)	2%	82%	17%	5%
Agriculture; Electricity; Water Supply; Mining and Quarrying; Transportation and Storage (51)	6%	73%	27% 	4%
Human health and social work; Arts and entertainment; Other service activities (111)	6% 	72% 	26% 	6%
Manufacturing (72)	4%	82%	15%	6%
Accommodation and food service activities (67)	3%	46% 	52% 	6%
Professional, scientific and technical; Admin and support services; Public administration and defence (120)	2%	89% 	10% 	5%
Construction (72)	0%	90% 	8% 	4%
Wholesale and Retail (160)	0% 	73% 	29% 	7%
Finance and Insurance; Information and Communication; Real Estate Activities (43)	0%	98% 	5% 	5%
Education (42)	0%	88%	7%	10%

C9. What methods do you encourage people to use? Base: All small businesses that encourage particular payment methods (738). “Any other methods” includes cheque, online payment methods e.g. PayPal, Govt funded schemes e.g. childcare vouchers, cryptocurrency e.g. Bitcoin, BACS, Vouchers (unspecified)

Mid-size businesses

Figure 11.4 Payment methods encouraged by mid-size businesses, by sector

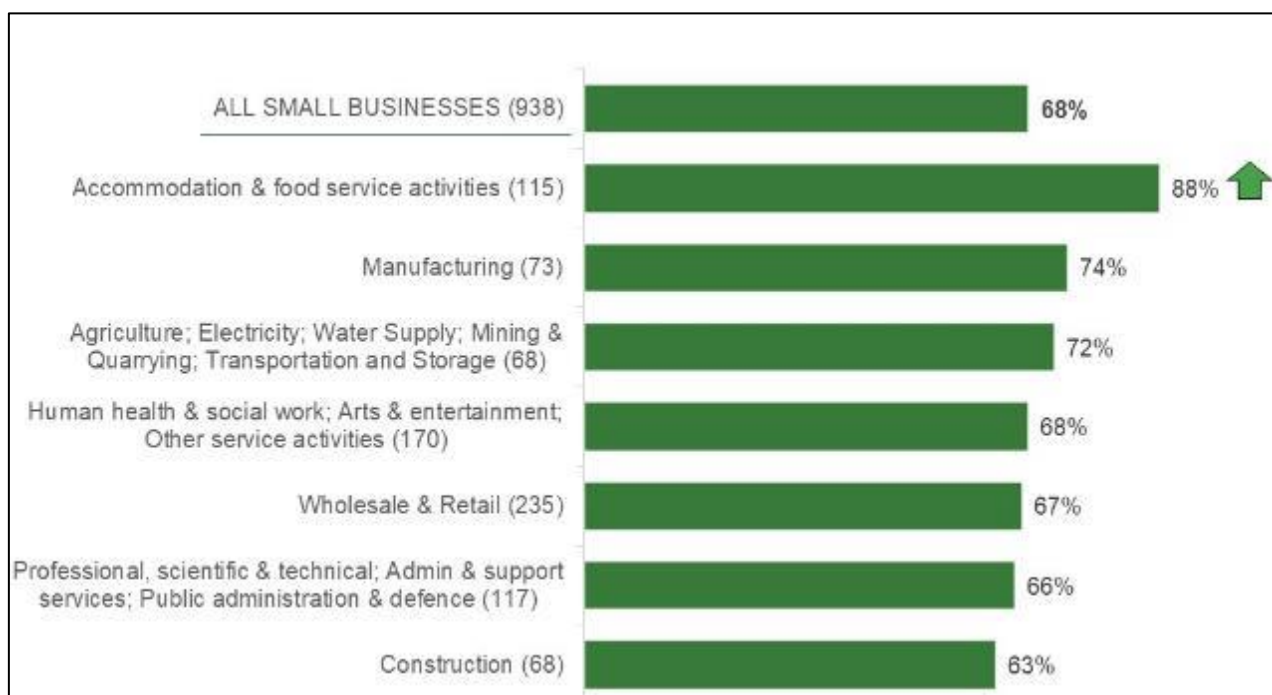
				
Row percentages	Cash	Any online bank transfers	Any card payments	Any other methods
ALL MID-SIZE BUSINESSES (454)	0%	83%	24%	3%
Manufacturing (53)	0%	96% 	13% 	4%
Professional, scientific and technical; Admin and support services; Public administration and defence (63)	0%	94% 	16%	2%
Wholesale and Retail (52)	0%	88%	21%	2%
Human health and social work; Arts and entertainment; Other service activities (84)	0%	83%	21%	2%
Education (108)	0%	71% 	11% 	29% 

C9. What methods do you encourage people to use? Base: All mid-size businesses who encourage particular payment methods (454). "Any other methods" includes cheque, online payment methods e.g. PayPal, Govt funded schemes e.g. childcare vouchers, cryptocurrency e.g. Bitcoin, BACS, Vouchers (unspecified). Sectors with a base size under 50 are not included.

Recording cash and non-cash separately

Small businesses

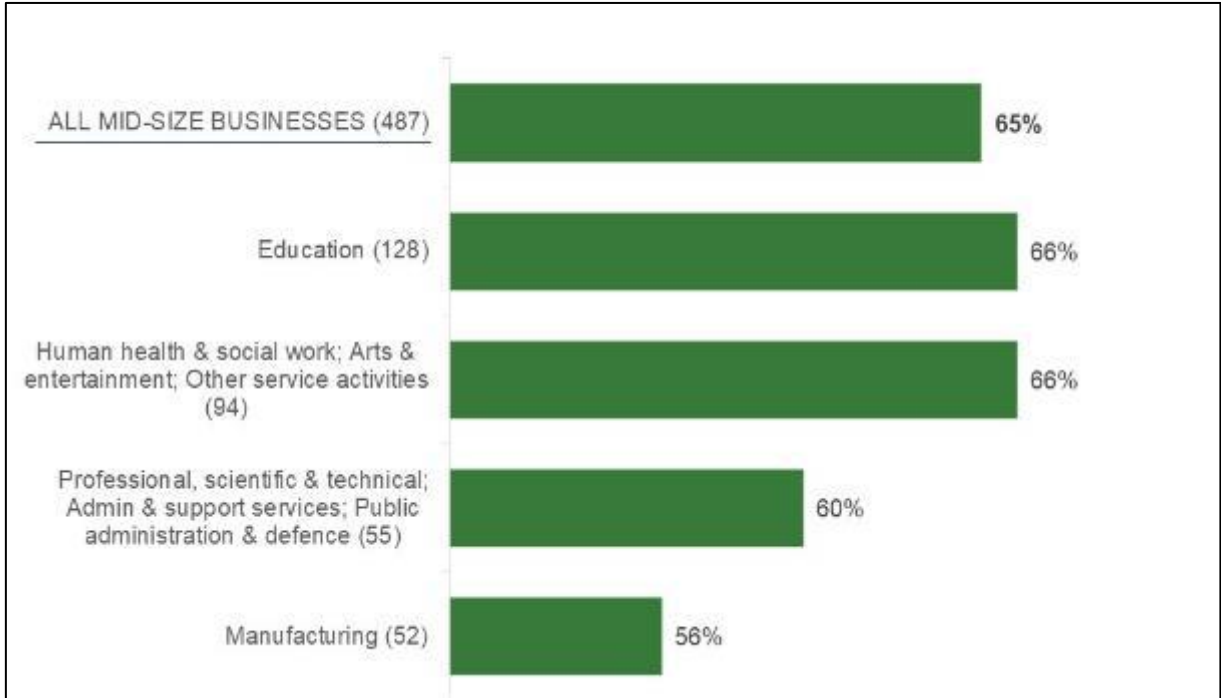
Figure 11.5 The proportion of small businesses that recorded sales through cash and non-cash separately, by sector



C1. Does your business record sales through cash and non-cash separately, in a way that allows you to easily calculate the value of your sales by either payment method? Base: All small businesses that accept cash and at least one other payment method (938). Sectors with a base size under 50 are not included.

Mid-size businesses

Figure 11.6 The proportion of mid-size businesses that recorded sales through cash and non-cash separately, by sector

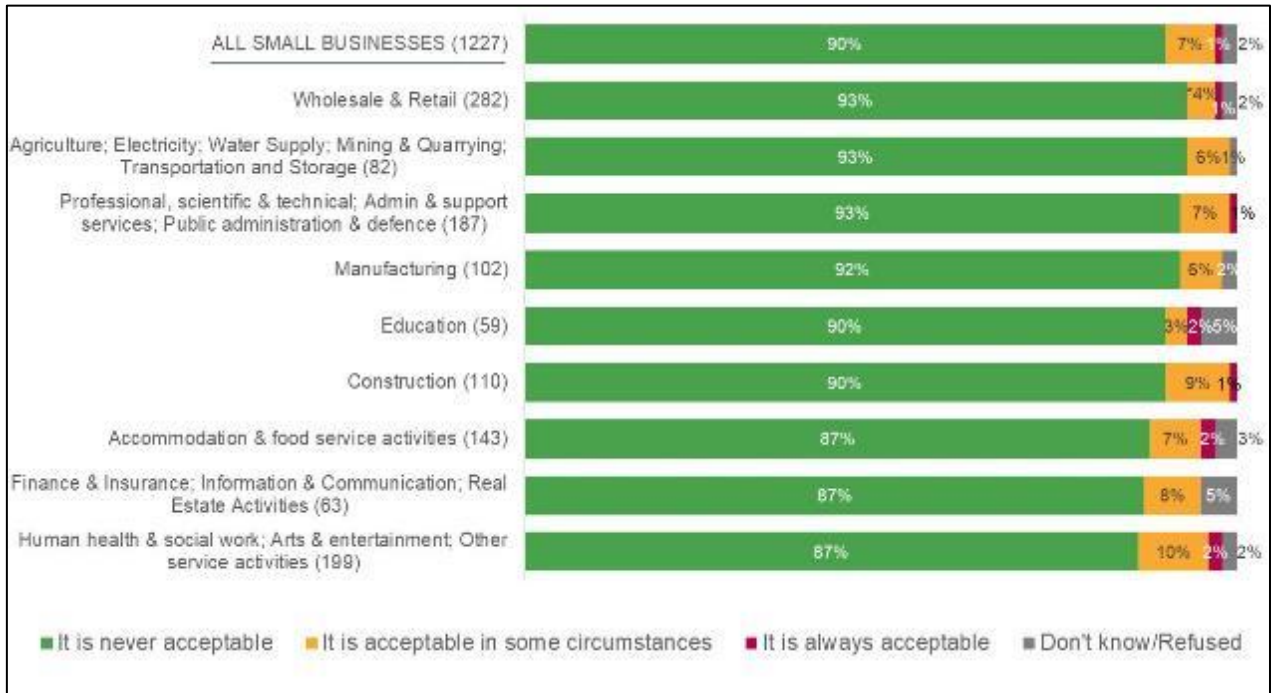


C1. Does your business record sales through cash and non-cash separately, in a way that allows you to easily calculate the value of your sales by either payment method? Base: All mid-size businesses that accept cash and at least one other payment method (487). Sectors with a base size under 50 are not included.

Views on cash payments and paying tax – scenarios

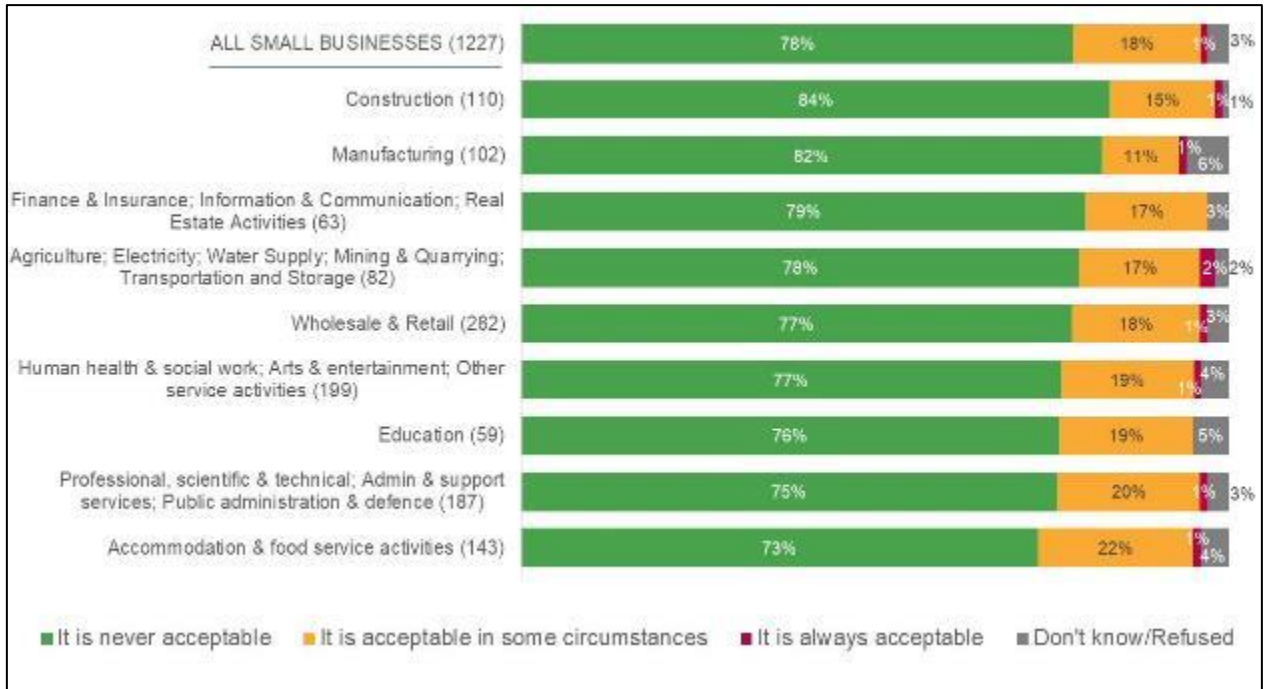
Small businesses

Figure 11.7 Views on accepting cash payments in order to avoid paying tax among small businesses, by sector



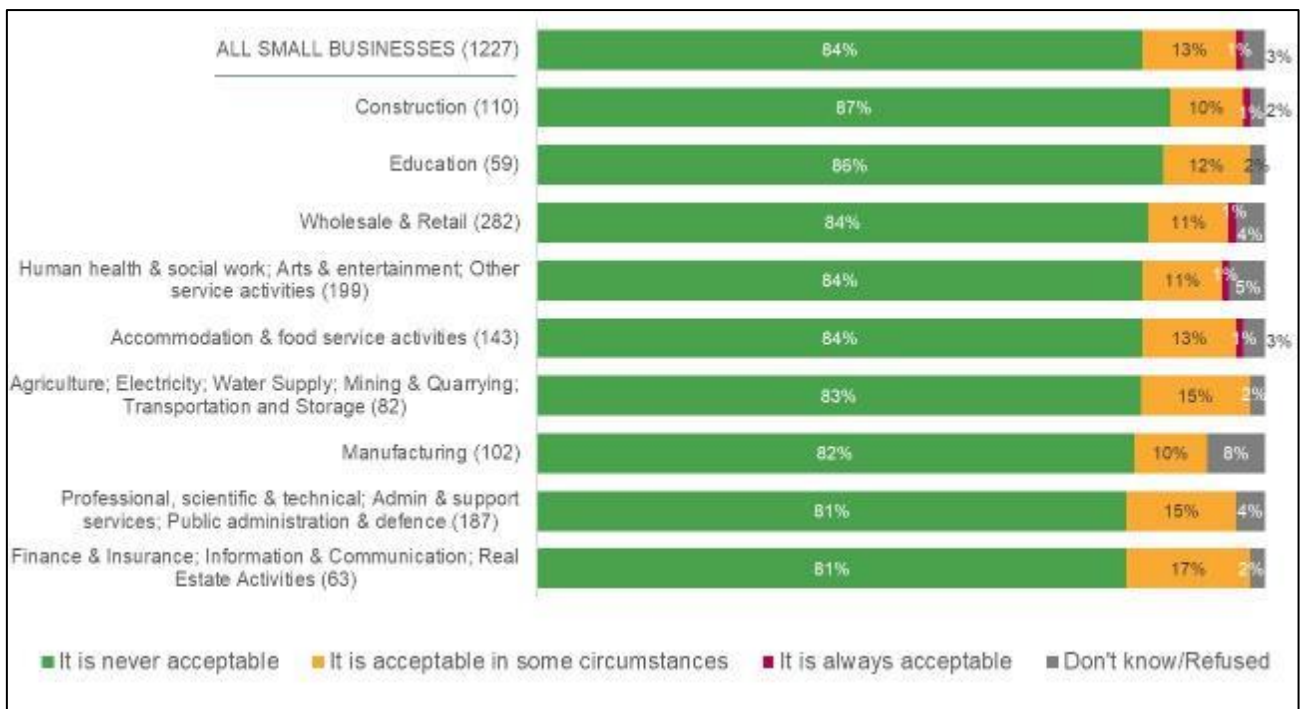
D1. How acceptable do you think it is for a business to accept cash payments in order to avoid paying tax? Base: All small businesses (1,227). Asterisks (*) highlight results significantly different from other businesses.

Figure 11.8 Views on accepting cash payments for extra work if it's a small or quick job in order to avoid paying tax among small businesses, by sector



D2. Thinking in terms of an individual person, how acceptable do you think it is for someone to accept cash payments for extra work if it's a small or quick job in order to avoid paying tax? Base: All small businesses (1,227).

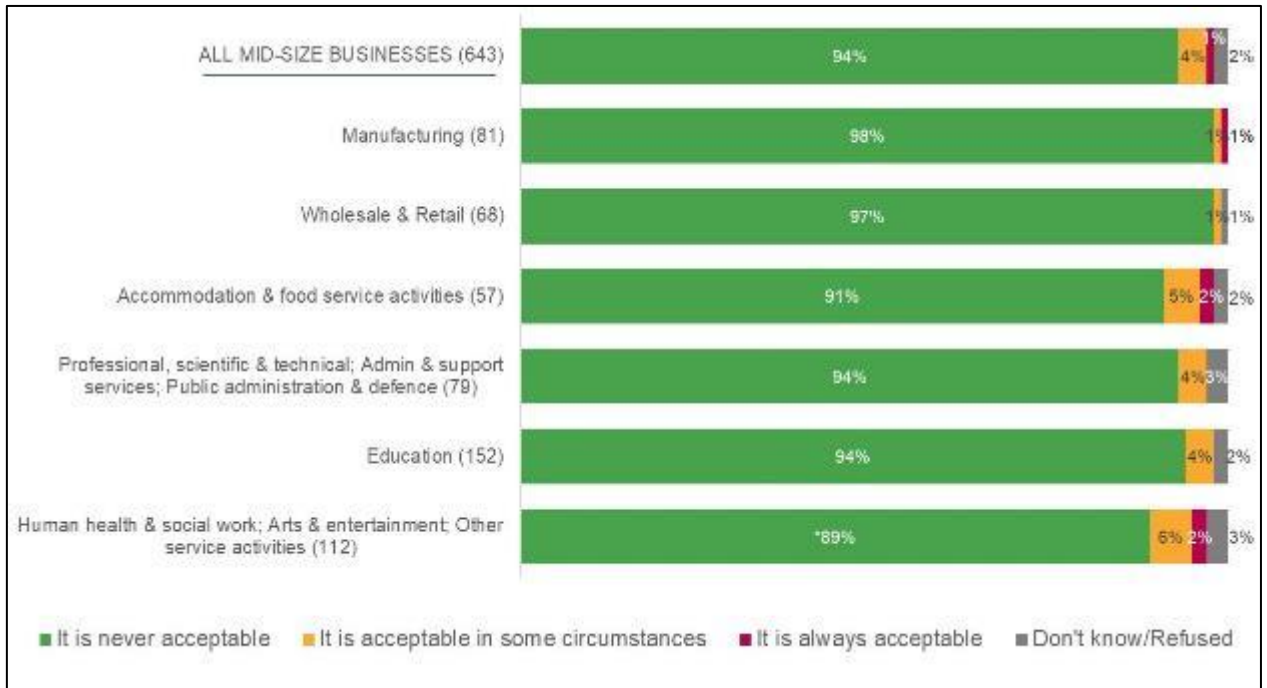
Figure 11.9 Views on accepting cash payments for extra work if it's overtime in order to avoid paying tax among small businesses, by sector



D3. How acceptable do you think it is for someone to accept cash payments for extra work if it's overtime in order to avoid paying tax? By extra work, it could mean both outside their usual profession or business, or their normal work, but additional hours. Base: All small businesses (1,227)

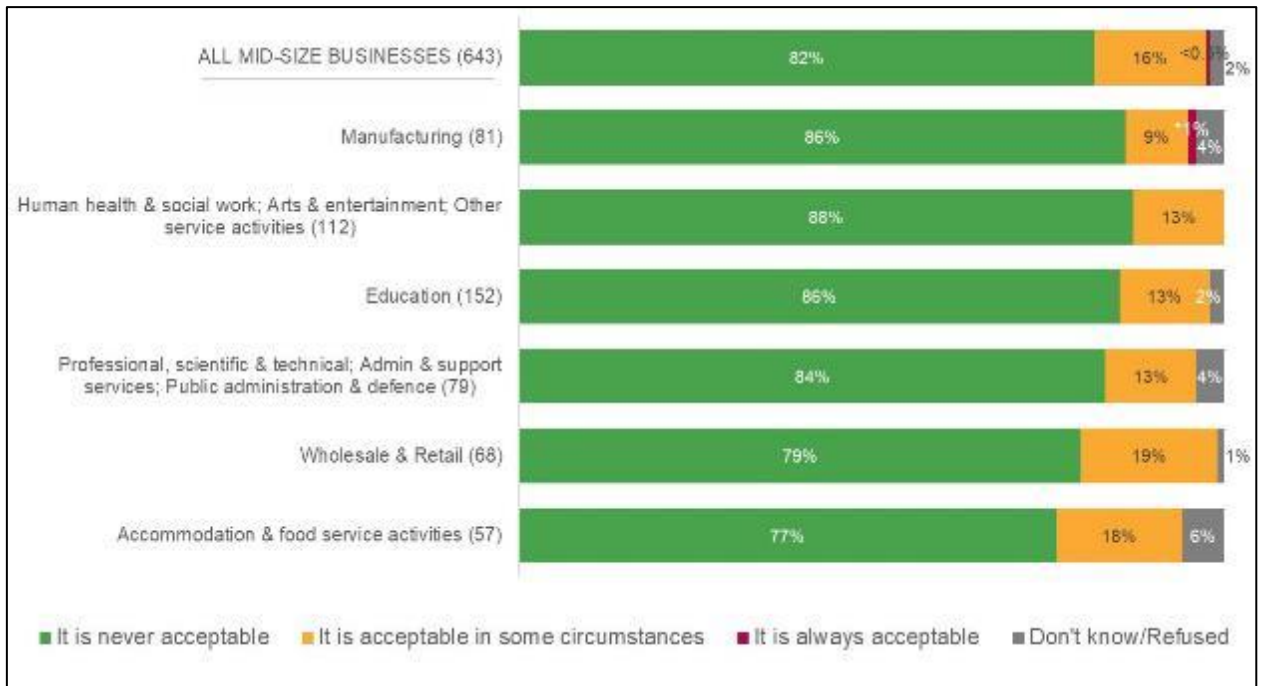
Mid-size businesses

Figure 11.10 Views on accepting cash payments in order to avoid paying tax among mid-size businesses, by sector



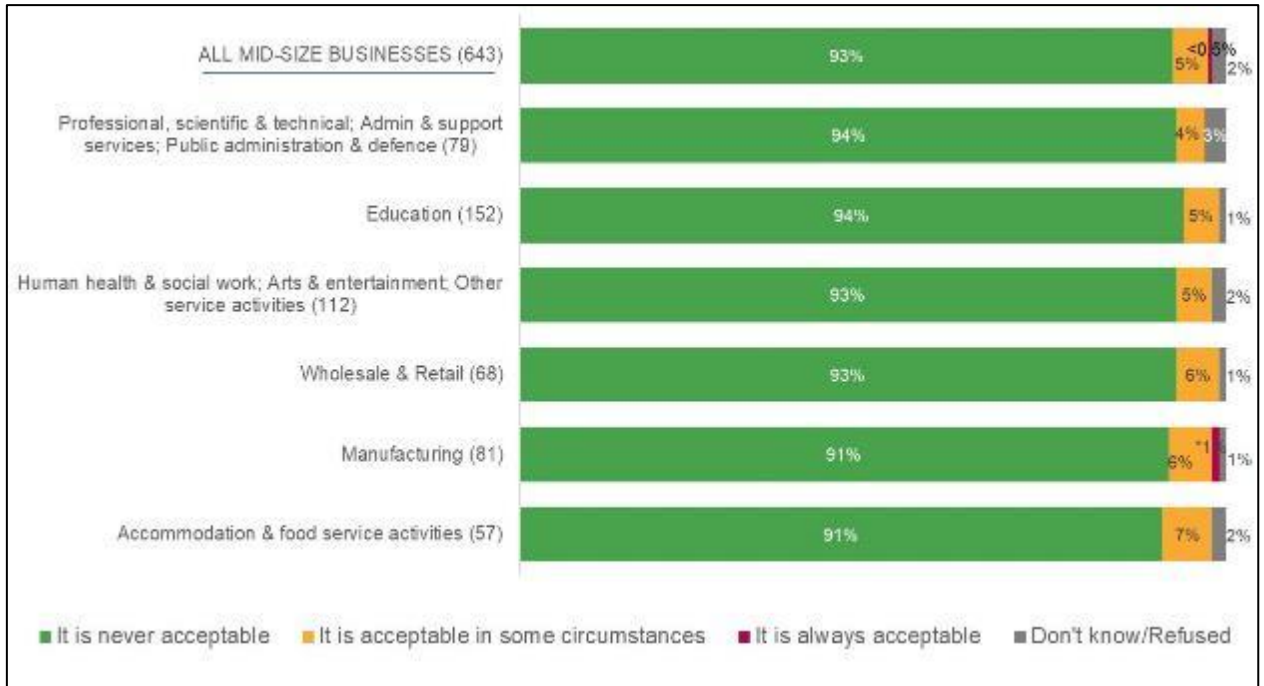
D1. How acceptable do you think it is for a business to accept cash payments in order to avoid paying tax? Base: All mid-size businesses (643). Asterisks (*) highlight results significantly different from other businesses. Sectors with a base size under 50 are not included.

Figure 11.11 Views on accepting cash payments for extra work if it's a small or quick job in order to avoid paying tax among mid-size businesses, by sector



D2. Thinking in terms of an individual person, how acceptable do you think it is for someone to accept cash payments for extra work if it's a small or quick job in order to avoid paying tax? Base: All mid-size businesses (643). Asterisks (*) highlight results significantly different from other businesses. Sectors with a base size under 50 are not included.

Figure 11.12 Views on accepting cash payments for extra work if it's overtime in order to avoid paying tax among mid-size businesses, by sector

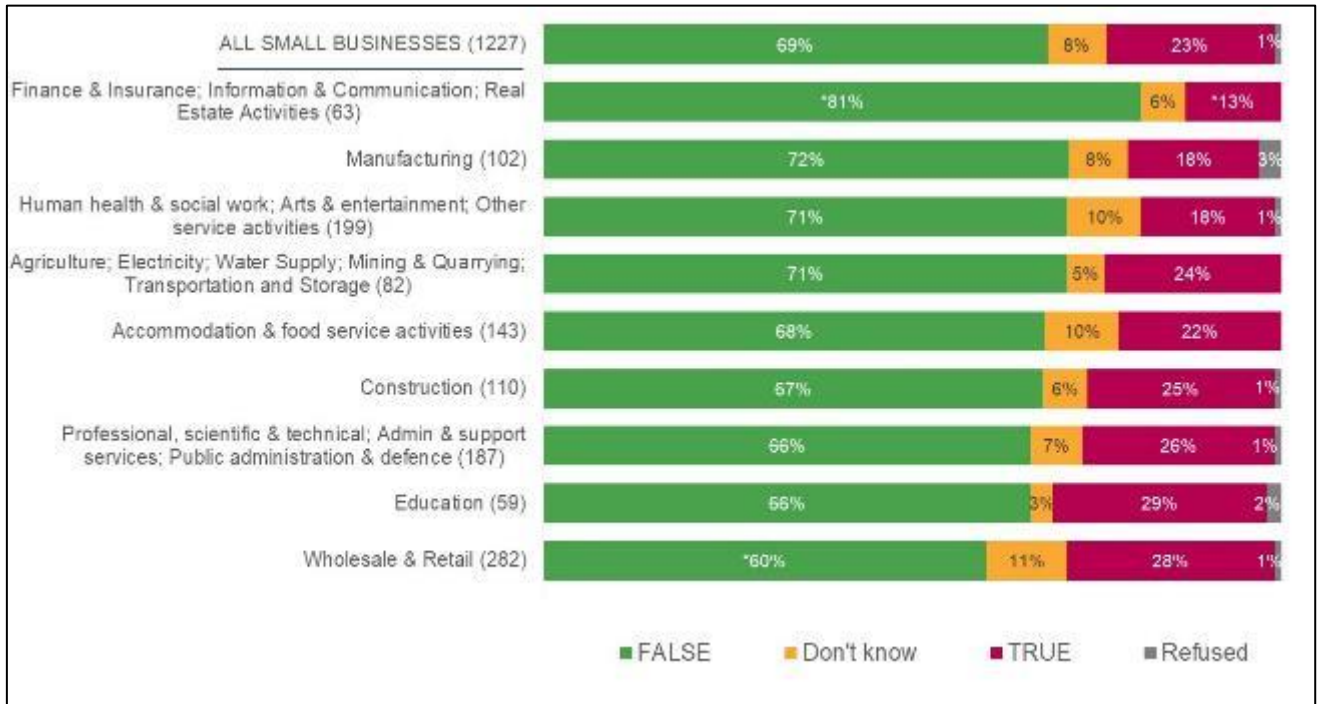


D3. How acceptable do you think it is for someone to accept cash payments for extra work if it's overtime in order to avoid paying tax? By extra work, it could mean both outside their usual profession or business, or their normal work, but additional hours. Base: All mid-size businesses (643). Asterisks (*) highlight results significantly different from other businesses. Sectors with a base size under 50 are not included.

Views on cash payments and paying tax – perceptions

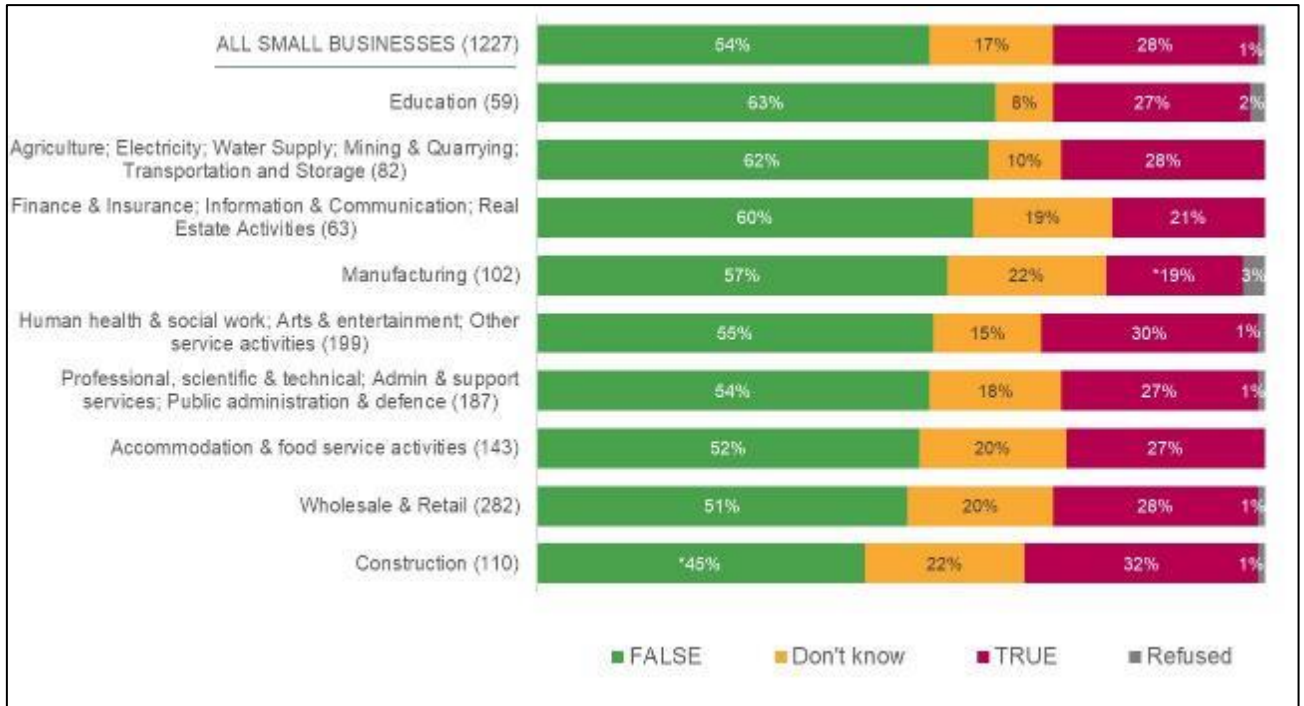
Small businesses

Figure 11.13 Views on whether a lot of people they know think it is okay not to pay tax on cash earnings, by sector



D4_1. Please tell me whether you believe the following statement to be true or false: A lot of people I know think it's okay not to pay tax on cash earnings. Base: All small businesses (1,227). Asterisks (*) highlight results significantly different from other businesses.

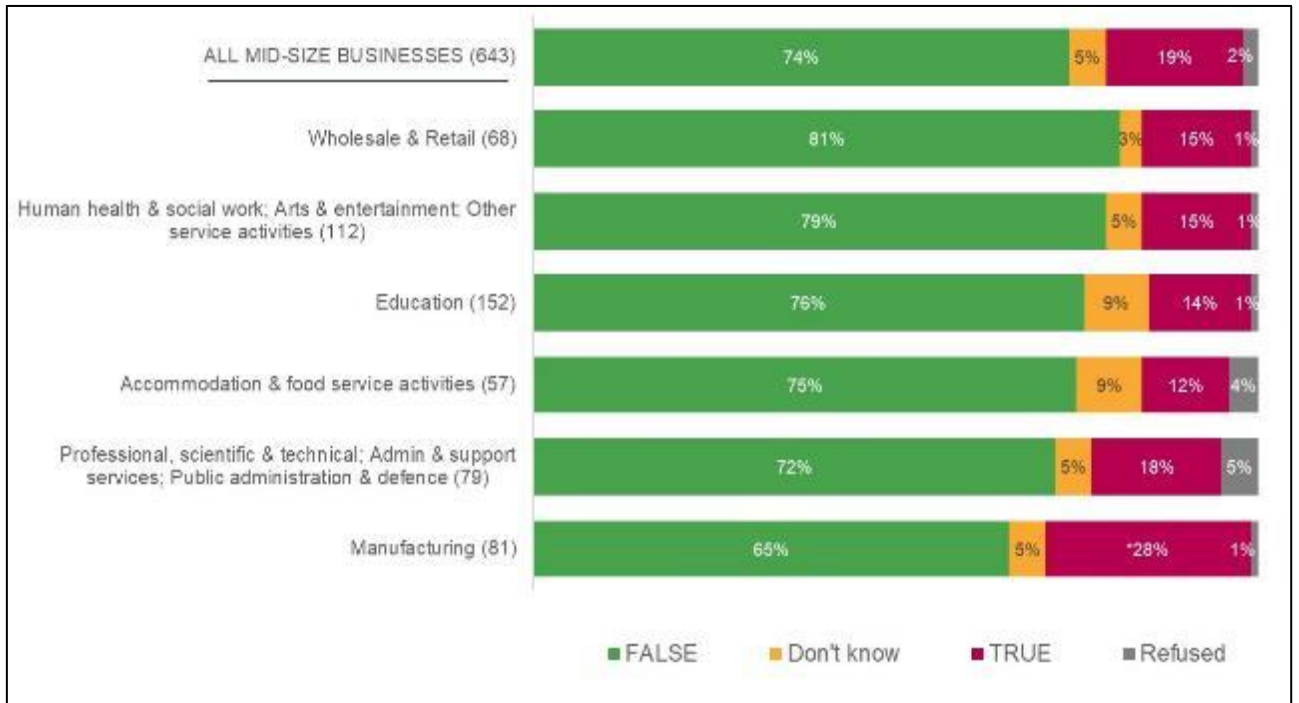
Figure 11.14 Views on whether a lot of small and mid-size businesses think it is okay to under-declare their income, by sector



D4_2. Please tell me whether you believe the following statement to be true or false: A lot of small and medium-size businesses think it is okay to under-declare their income in order to avoid paying taxes. Base: All small businesses (1,227). Asterisks (*) highlight results significantly different from other businesses.

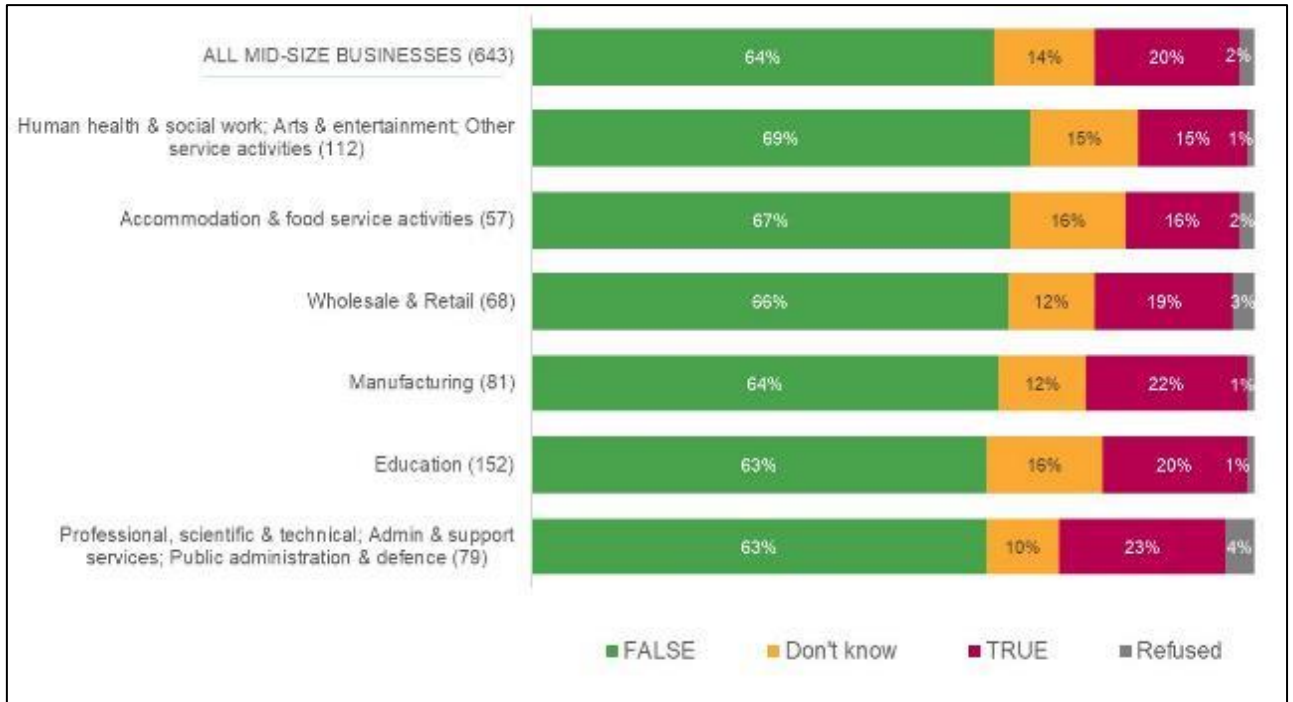
Mid-size businesses

Figure 11.15 Views on whether a lot of people they know think it is okay not to pay tax on cash earnings, by sector



D4_1. Please tell me whether you believe the following statement to be true or false: A lot of people I know think it's okay not to pay tax on cash earnings. Base: All mid-size businesses (643). Asterisks (*) highlight results significantly different from other businesses. Sectors with a base size under 50 are not included.

Figure 11.16 Views on whether a lot of small and mid-size businesses think it is okay to under-declare their income, by sector



D4_2. Please tell me whether you believe the following statement to be true or false: A lot of small and medium-size businesses think it is okay to under-declare their income in order to avoid paying taxes. Base: All mid-size businesses (643). Sectors with a base size under 50 are not included.

12 Appendix E





Regional breakdowns of key survey questions

Results that are significantly higher compared to other businesses are shown with a green upward arrow. Results that are significantly lower compared to other businesses are shown with a red downward arrow.

Payment methods accepted by businesses

Small businesses





Figure 12.1 Payment methods accepted by small businesses, by region

				
Row percentages	Cash	Any online bank transfers	Any card payments	Any other methods
ALL SMALL BUSINESSES (1,227)	75%	92%	52%	80%
East Midlands (98)	80%	95%	48%	86%
East of England (131)	72%	94%	45%	78%
London (173)	62% ↓	96%	51%	80%
North West (98)	76%	90%	59%	77%
South East (227)	78%	93%	52%	83%
South West (152)	75%	92%	45%	81%
West Midlands (89)	87% ↑	92%	62%	77%
Yorkshire and the Humber (78)	76%	89%	69%	75%
Scotland (76)	82%	87%	51%	83%
Wales (51)	81%	81% ↓	58%	78%

B1. Which of the following payment methods would you accept from your customers? Base: All small businesses (1,227)
 "Any other methods" includes cheque, online payment methods e.g. PayPal, Govt funded schemes e.g. childcare vouchers, cryptocurrency e.g. Bitcoin, BACS, Vouchers (unspecified). Regions with a base size under 50 are not included.

Mid-size businesses

Figure 12.2 Payment methods accepted by mid-size businesses, by region





				
Row percentages	Cash	Any online bank transfers	Any card payments	Any other methods
ALL MID-SIZE BUSINESSES (643)	73%	94%	65%	88%
East Midlands (52)	63%	93%	62%	84%
East of England (76)	72%	95%	68%	93%
London (64)	70%	88% ↓	62%	78% ↓
North West (78)	69%	96%	67%	88%
South East (94)	78%	94%	67%	93%
South West (71)	80%	94%	76%	88%
West Midlands (53)	73%	96%	62%	96% ↑
Yorkshire and the Humber (57)	72%	99%	56%	88%

B1. Which of the following payment methods would you accept from your customers? Base: All mid-size businesses (643) “Any other methods” includes cheque, online payment methods e.g. PayPal, Govt funded schemes e.g. childcare vouchers, cryptocurrency e.g. Bitcoin, BACS, Vouchers (unspecified). Regions with a base size under 50 are not included.

Payment methods encouraged by businesses

Small businesses







Figure 12.3 Payment methods encouraged by small businesses, by region

				
Row percentages	Cash	Any online bank transfers	Any card payments	Any other methods
ALL SMALL BUSINESSES (738)	2%	82%	17%	5%
East Midlands (66)	4%	75%	16%	11% ↑
East of England (82)	1%	79%	20%	7%
London (105)	0%	93% ↑	12%	1% ↓
North West (53)	3%	91%	17%	4%
South East (142)	3%	78%	15%	8%
South West (85)	1%	83%	17%	5%
West Midlands (54)	6%	76%	18%	3%

C9. What methods do you encourage people to use? Base: All small businesses that encourage particular payment methods (738). “Any other methods” includes cheque, online payment methods e.g. PayPal, Govt funded schemes e.g. childcare vouchers, cryptocurrency e.g. Bitcoin, BACS, Vouchers (unspecified). Regions with a base size under 50 are not included.

Mid-size businesses

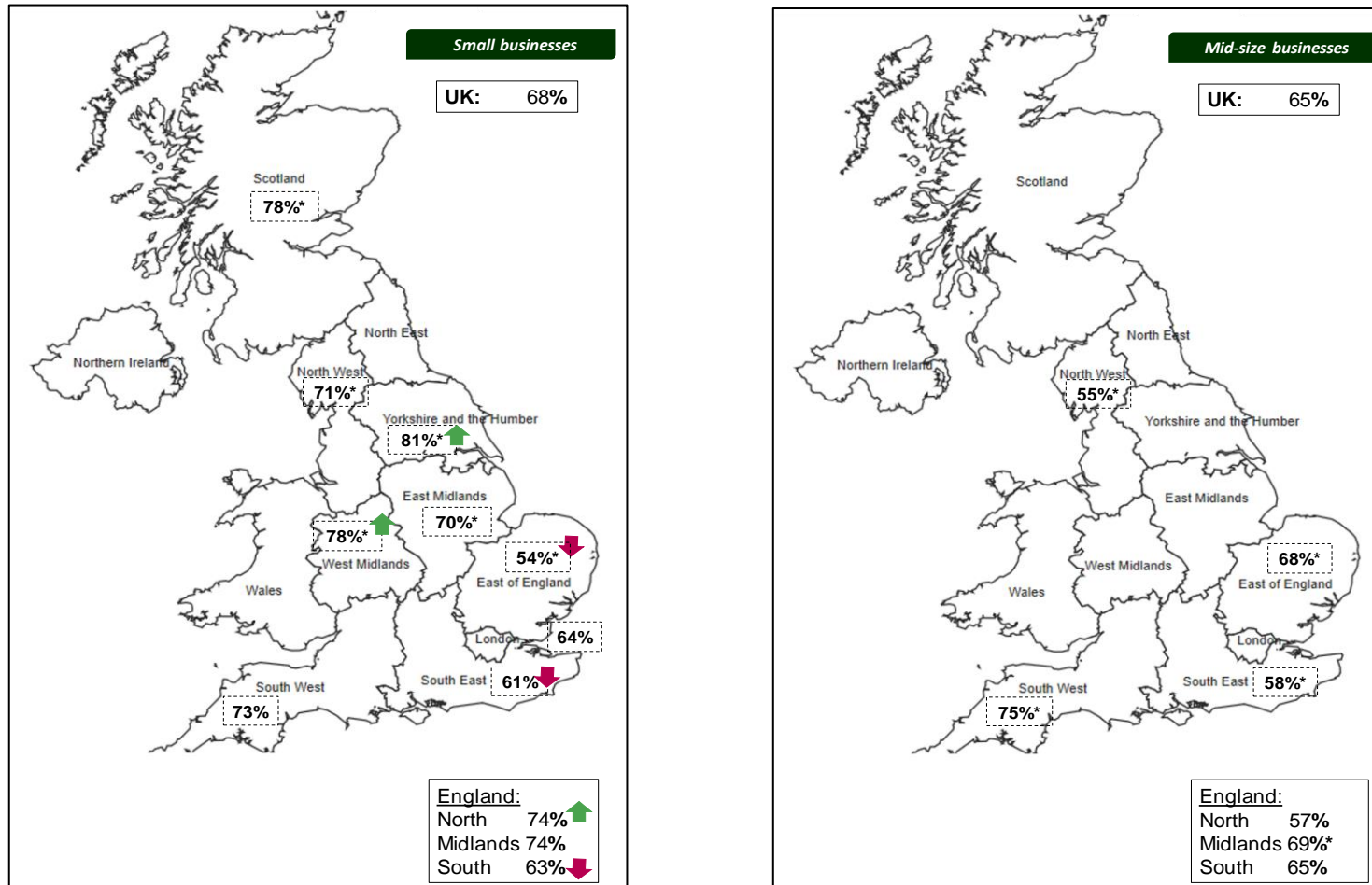
Figure 12.4 Payment methods encouraged by mid-size businesses, by region

				
<i>Row percentages</i>	Cash	Any online bank transfers	Any card payments	Any other methods
ALL MID-SIZE BUSINESSES (454)	0%	83%	24%	3%
East of England (50)	0%	80%	16%	9% 
North West (50)	0%	96% 	16%	4%
South East (67)	0%	79%	27%	1%
South West (51)	0%	79%	27%	2%

C9. What methods do you encourage people to use? Base: All mid-size businesses who encourage particular payment methods (454). "Any other methods" includes cheque, online payment methods e.g. PayPal, Govt funded schemes e.g. childcare vouchers, cryptocurrency e.g. Bitcoin, BACS, Vouchers (unspecified). Regions with a base size under 50 are not included.

Recording cash and non-cash separately

Figure 12.5 The proportion of small and mid-size businesses that recorded sales through cash and non-cash separately, by region

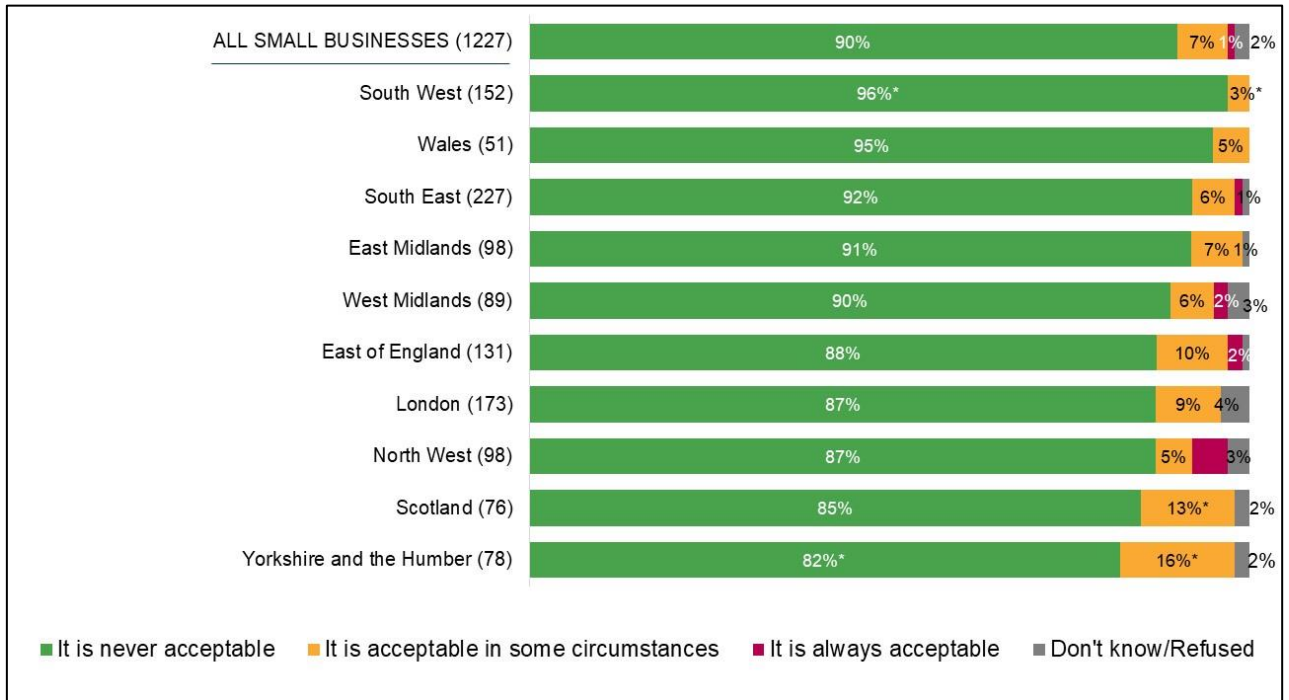


C1. Does your business record sales through cash and non-cash separately, in a way that allows you to easily calculate the value of your sales by either payment method? Base: All small businesses that accept cash and at least one other payment method (938); all mid-size businesses that accept cash and at least one other payment method (487). An asterisk (*) denotes regions with a base size below 100. Regions with a base size under 50 are not included.

Views on cash payments and paying tax – scenarios

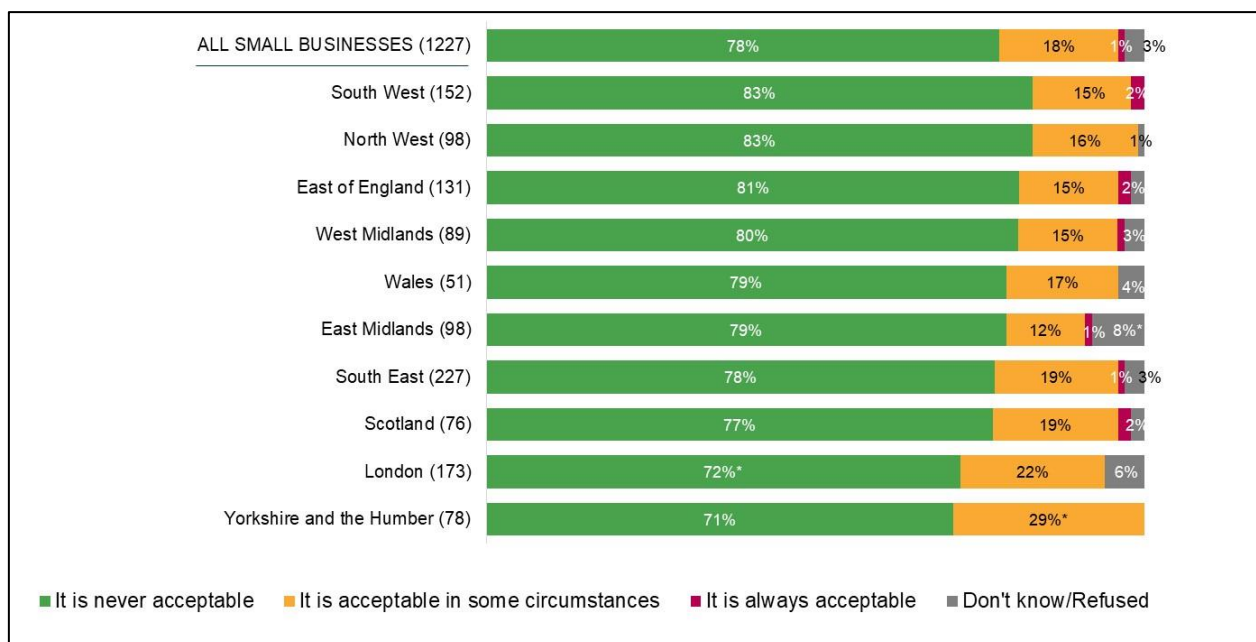
Small businesses

Figure 12.6 Views on accepting cash payments in order to avoid paying tax among small businesses, by region



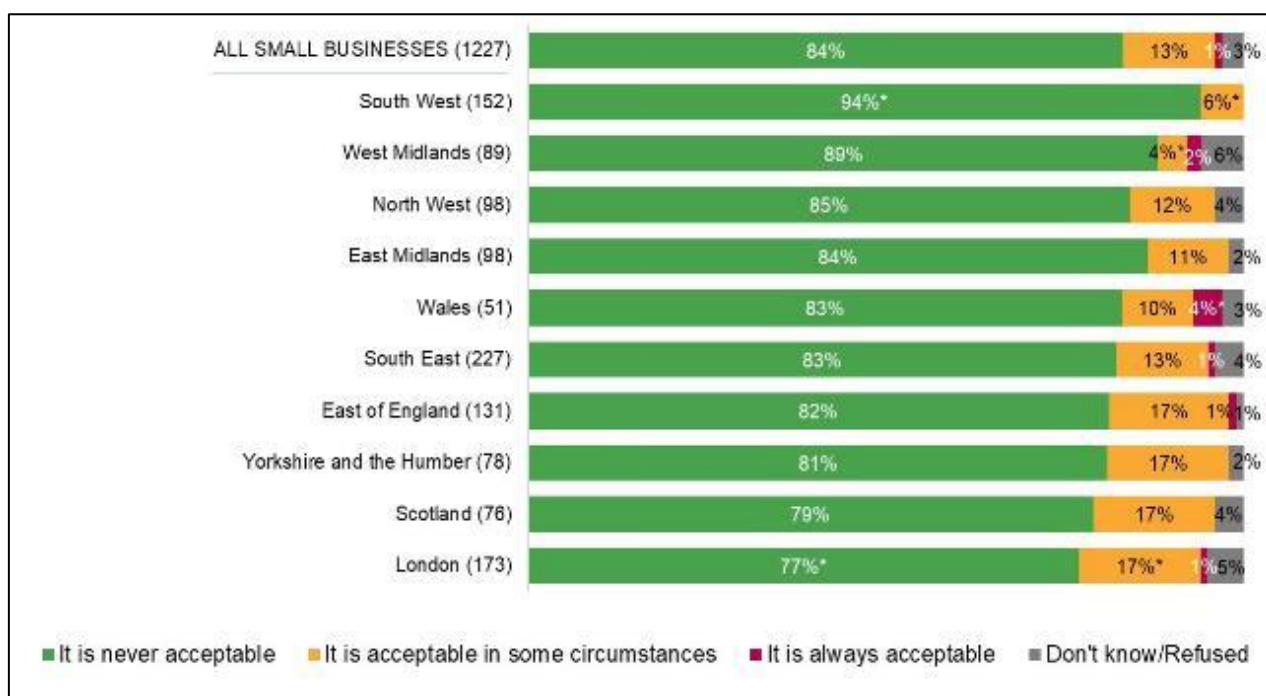
D1. How acceptable do you think it is for a business to accept cash payments in order to avoid paying tax? Base: All small businesses (1,227). Asterisks (*) highlight results significantly different from other businesses. Regions with a base size under 50 are not included.

Figure 12.7 Views on accepting cash payments for extra work if it's a small or quick job in order to avoid paying tax among small businesses, by region



D2. Thinking in terms of an individual person, how acceptable do you think it is for someone to accept cash payments for extra work if it's a small or quick job in order to avoid paying tax? Base: All small businesses (1,227). Regions with a base size under 50 are not included.

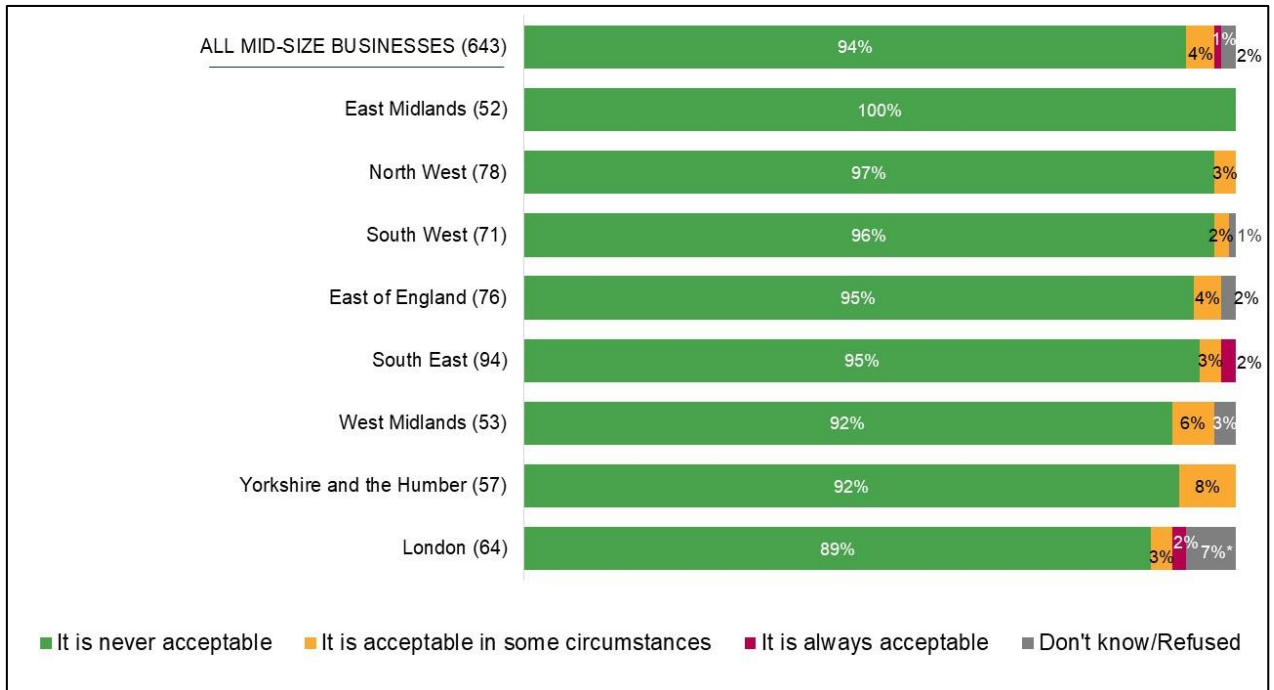
Figure 12.8 Views on accepting cash payments for extra work if it's overtime in order to avoid paying tax among small businesses, by region



D3. How acceptable do you think it is for someone to accept cash payments for extra work if it's overtime in order to avoid paying tax? By extra work, it could mean both outside their usual profession or business, or their normal work, but additional hours. Base: All small businesses (1,227). Regions with a base size under 50 are not included.

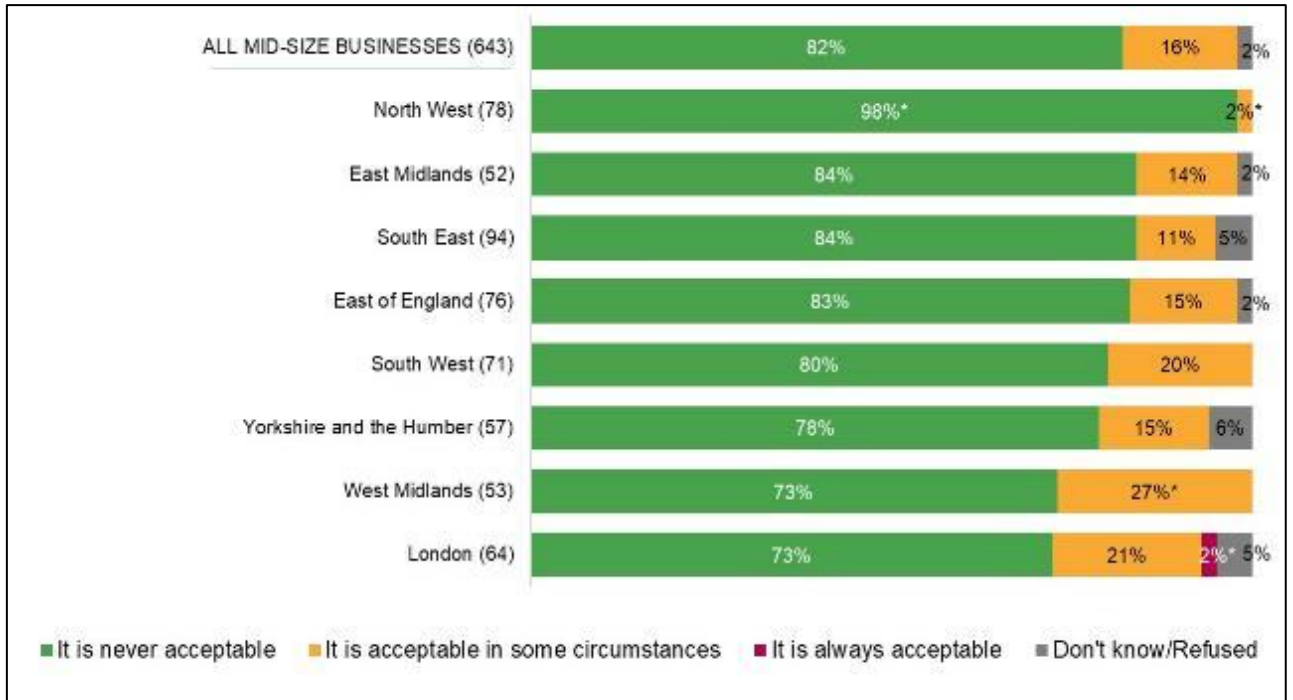
Mid-size businesses

Figure 12.9 Views on accepting cash payments in order to avoid paying tax among mid-size businesses, by region



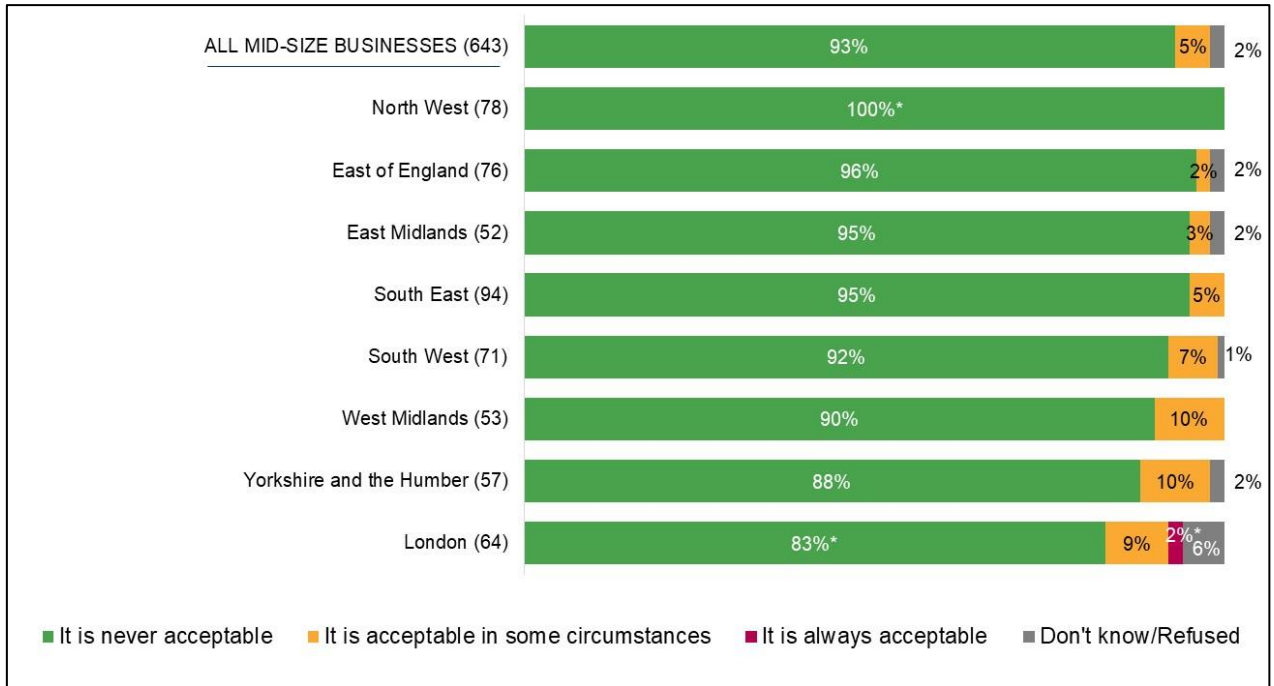
D1. How acceptable do you think it is for a business to accept cash payments in order to avoid paying tax? Base: All mid-size businesses (643). Asterisks (*) highlight results significantly different from other businesses. Regions with a base size under 50 are not included.

Figure 12.10 Views on accepting cash payments for extra work if it's a small or quick job in order to avoid paying tax among mid-size businesses, by region



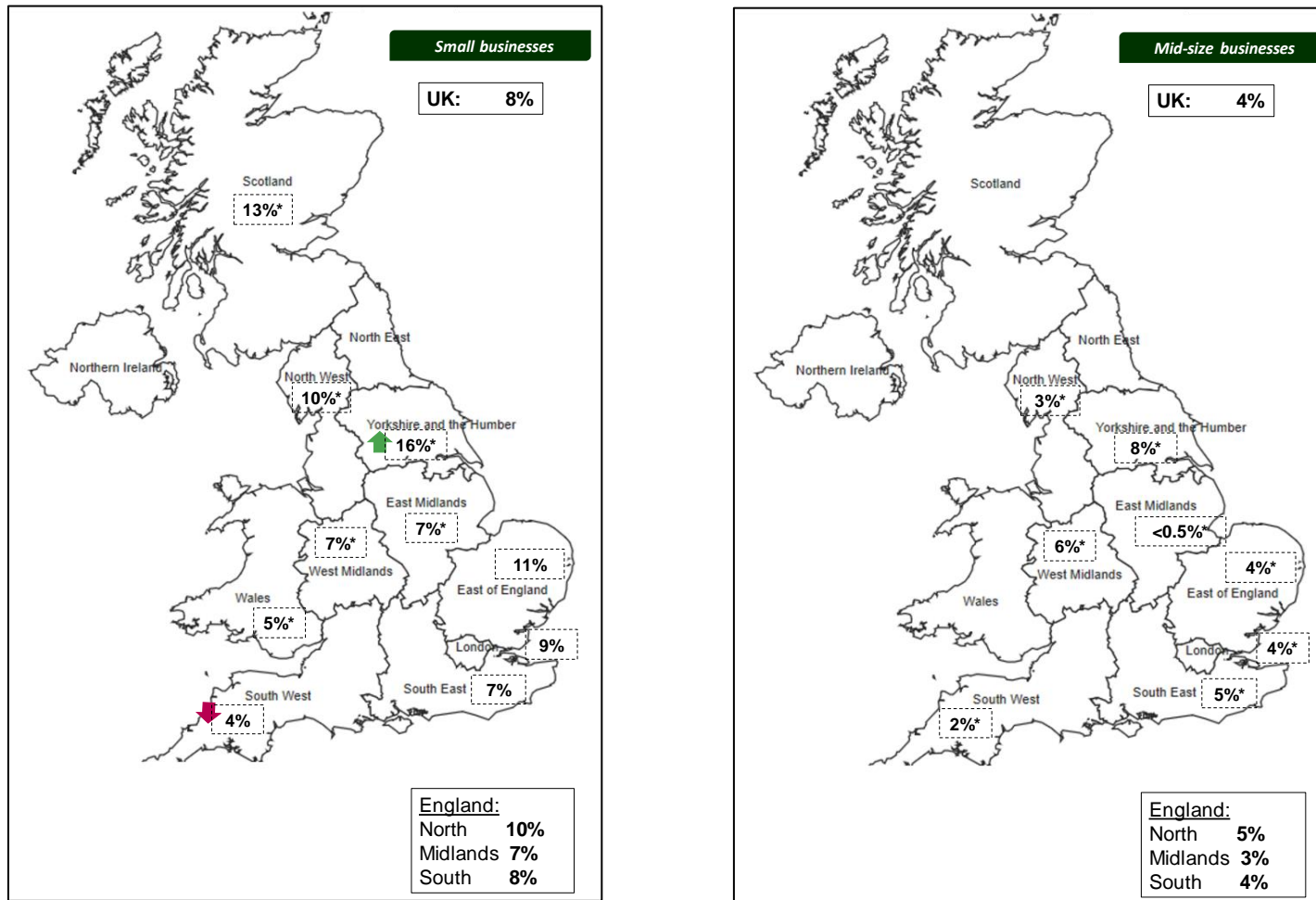
D2. Thinking in terms of an individual person, how acceptable do you think it is for someone to accept cash payments for extra work if it's a small or quick job in order to avoid paying tax? Base: All mid-size businesses (643). Asterisks (*) highlight results significantly different from other businesses. Regions with a base size under 50 are not included.

Figure 12.11 Views on accepting cash payments for extra work if it's overtime in order to avoid paying tax among mid-size businesses, by region



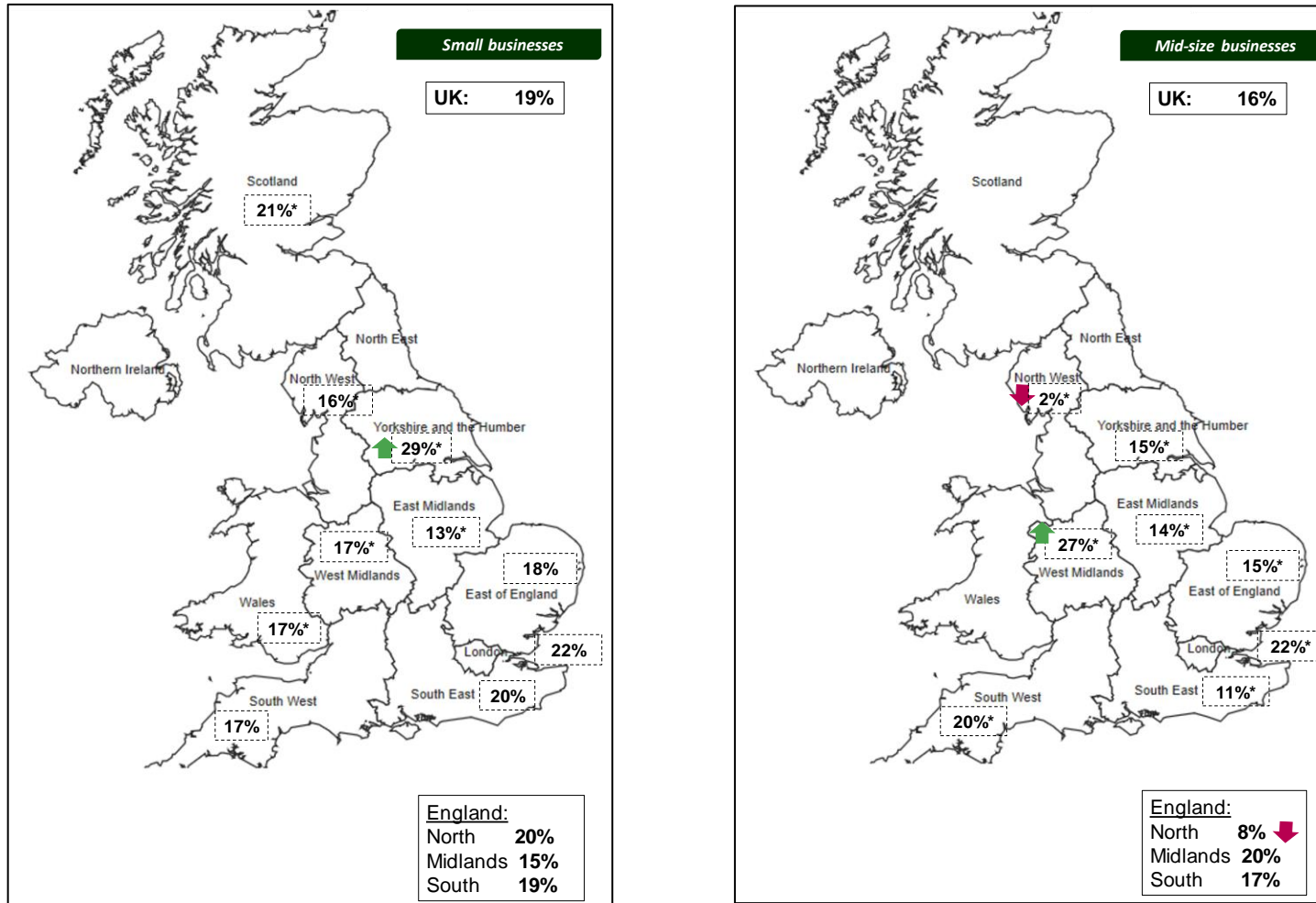
D3. How acceptable do you think it is for someone to accept cash payments for extra work if it's overtime in order to avoid paying tax? By extra work, it could mean both outside their usual profession or business, or their normal work, but additional hours. Base: All mid-size businesses (643). Asterisks (*) highlight results significantly different from other businesses. Regions with a base size under 50 are not included.

Figure 12.12 Businesses that said it is sometimes or always acceptable for a business to accept cash payments in order to avoid paying tax, by region



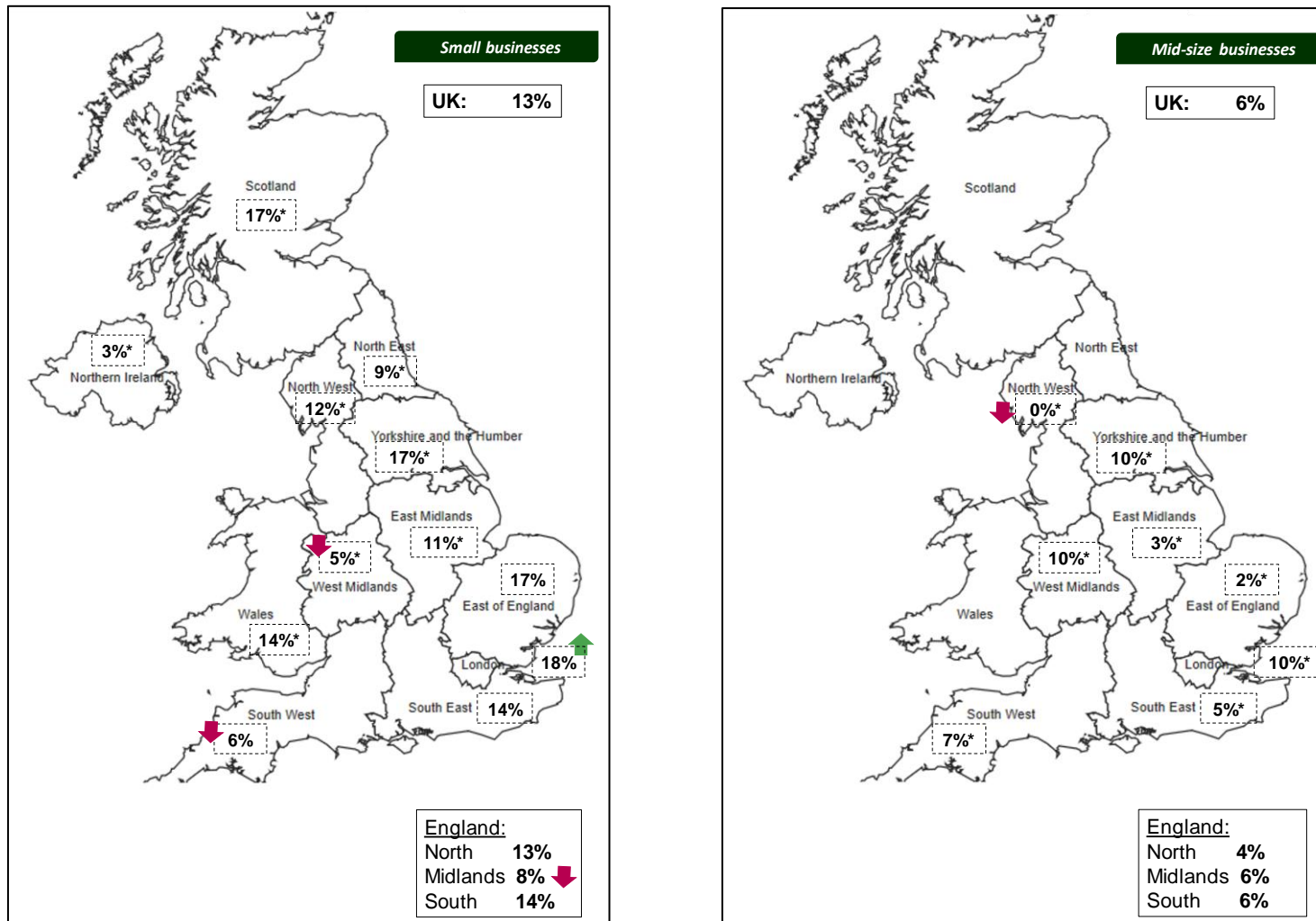
D1. How acceptable do you think it is for a business to accept cash payments in order to avoid paying tax? Base: All small businesses (1,227); all mid-size businesses (643). An asterisk (*) denotes regions with a base size below 100. Regions with a base size under 50 are not included.

Figure 12.13 Businesses that said it is sometimes or always acceptable for someone to accept cash payments for extra work if it's a small or quick job in order to avoid paying tax, by region



D2. Thinking in terms of an individual person, how acceptable do you think it is for someone to accept cash payments for extra work if it's a small or quick job in order to avoid paying tax? Base: All small businesses (1,227); all mid-size businesses (643). An asterisk (*) denotes regions with a base size below 100. Regions with a base size under 50 are not included.

Figure 12.14 Businesses that said it is sometimes or always acceptable for someone to accept cash payments for extra work if it's overtime in order to avoid paying tax, by region

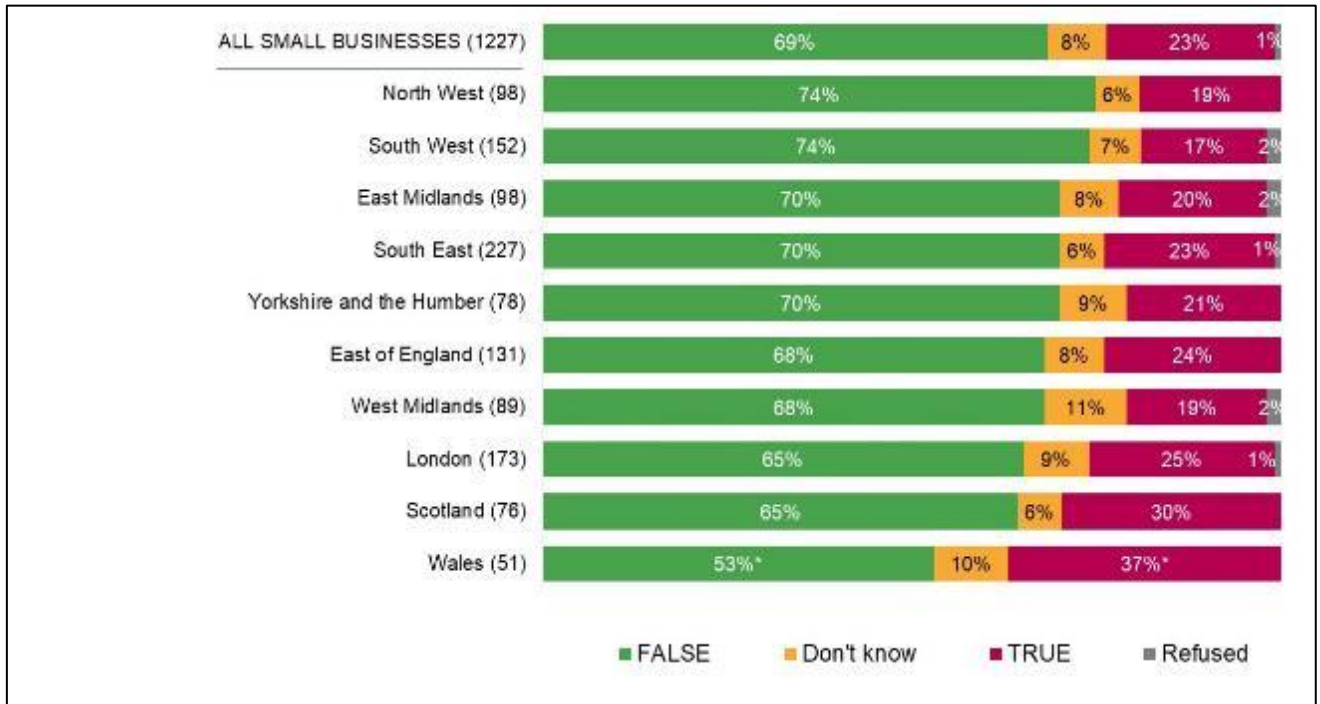


D3. How acceptable do you think it is for someone to accept cash payments for extra work if it's overtime in order to avoid paying tax? By extra work, it could mean both outside their usual profession or business, or their normal work, but additional hours. Base: All small businesses (1,227); all mid-size businesses (643). An asterisk (*) denotes regions with a base size below 100. Regions with a base size under 50 are not included.

Views on cash payments and paying tax – perceptions

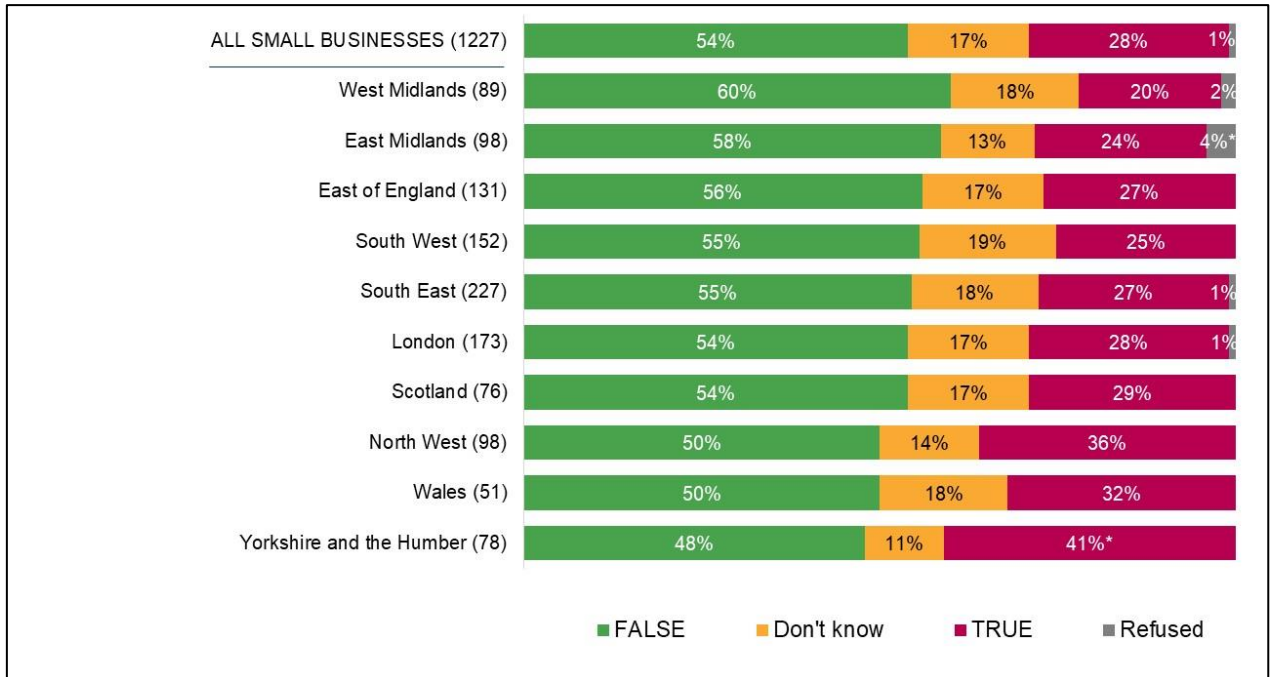
Small businesses

Figure 12.15 Views on whether a lot of people they know think it is okay not to pay tax on cash earnings, by region



D4_1. Please tell me whether you believe the following statement to be true or false: A lot of people I know think it's okay not to pay tax on cash earnings. Base: All small businesses (1,227). Asterisks (*) highlight results significantly different from other businesses. Regions with a base size under 50 are not included.

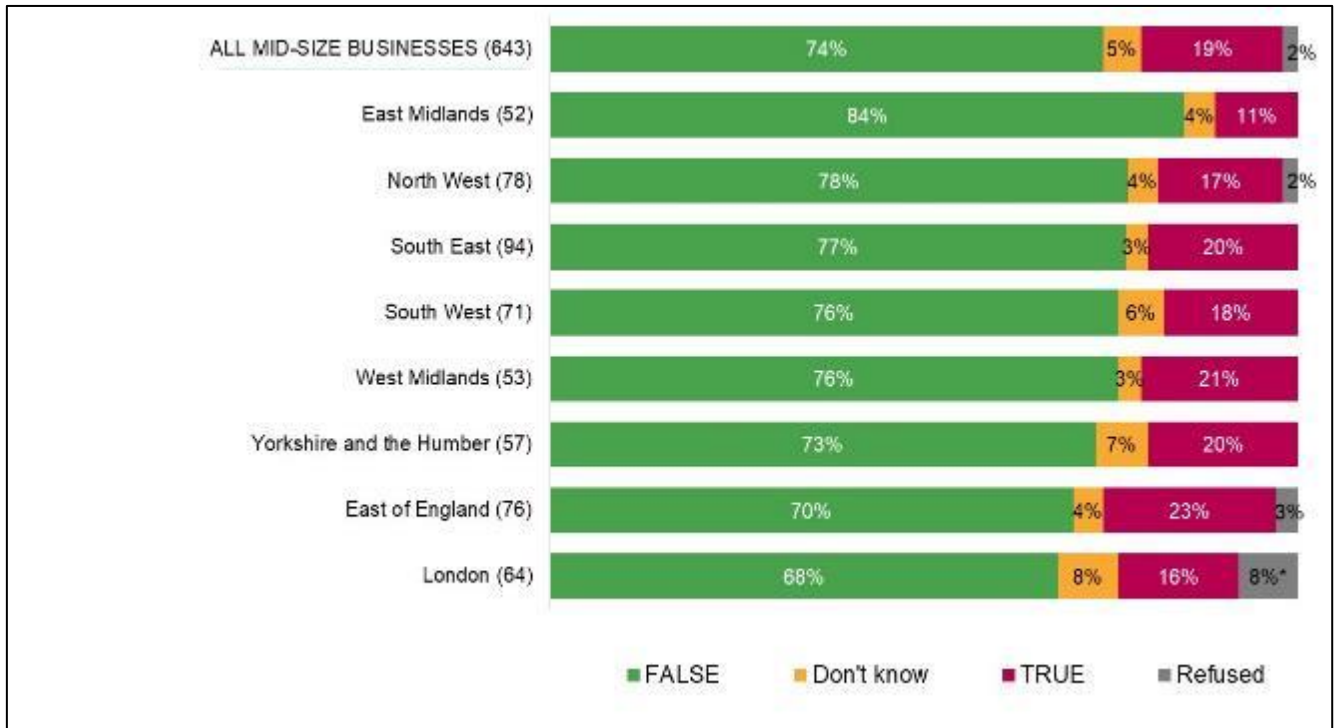
Figure 12.16 Views on whether a lot of small and mid-size businesses think it is okay to under-declare their income, by region



D4_2. Please tell me whether you believe the following statement to be true or false: A lot of small and medium-size businesses think it is okay to under-declare their income in order to avoid paying taxes. Base: All small businesses (1,227). Asterisks (*) highlight results significantly different from other businesses. Regions with a base size under 50 are not included.

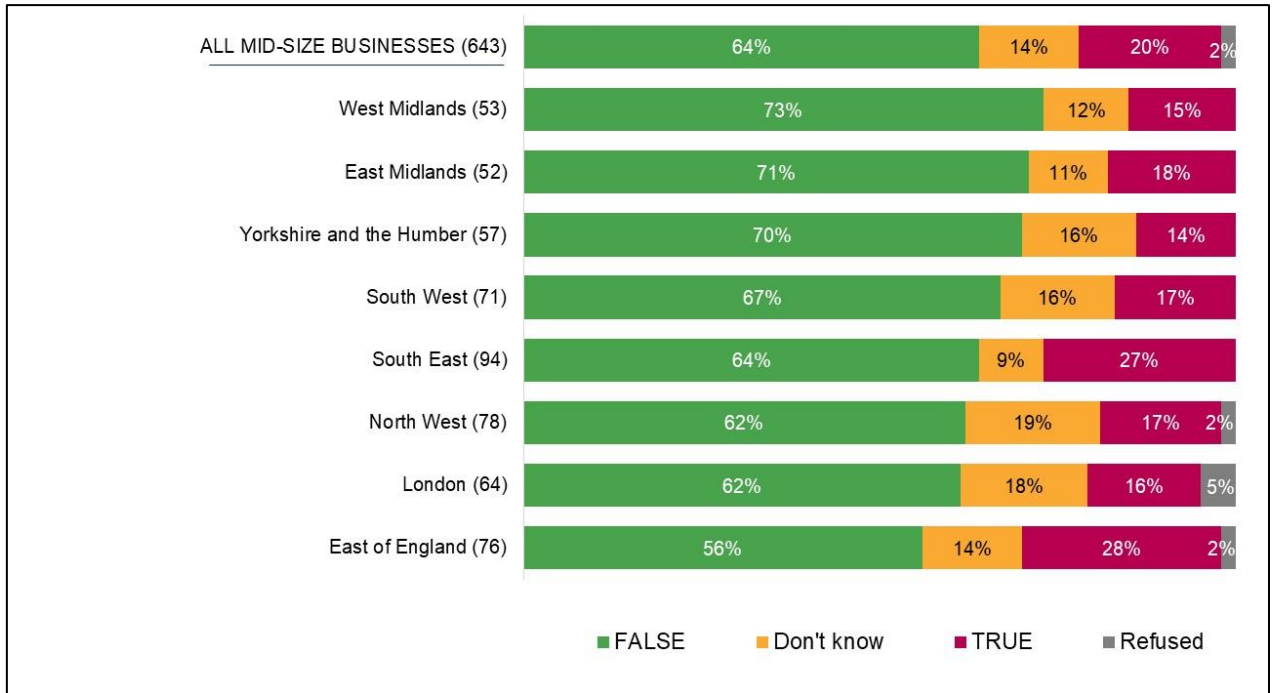
Mid-size businesses

Figure 12.17 Views on whether a lot of people they know think it is okay not to pay tax on cash earnings, by region



D4_1. Please tell me whether you believe the following statement to be true or false: A lot of people I know think it's okay not to pay tax on cash earnings. Base: All mid-size businesses (643). Asterisks (*) highlight results significantly different from other businesses. Regions with a base size under 50 are not included.

Figure 12.18 Views on whether a lot of small and mid-size businesses think it is okay to under-declare their income, by region



D4_2. Please tell me whether you believe the following statement to be true or false: A lot of small and medium-size businesses think it is okay to under-declare their income in order to avoid paying taxes. Base: All mid-size businesses (643). Regions with a base size under 50 are not included.

13 Appendix F

Views on the UK tax system

Businesses that took part in the qualitative interviews were asked how they feel about the UK tax system in relation to their business.

Some highlighted a perceived unfair discrepancy between small and large businesses, including the belief that there are loopholes for large companies and they are able to employ experts to take advantage of such loopholes to keep their tax liability down to a minimum.

"Everybody I have spoken to seems to share my view in that there is a massive difference between a very large company and a small company. They {larger businesses} have the ability to hire very good tax accountants and very good solicitors, people that are going to keep their tax liability down to a minimum or find ways for them to pay less. Whereas a small business like myself hasn't got the resources or the time to do that...How can that possibly be fair?"

Small business, Information and communication, high opportunity/acceptance

"I think its abhorrent that there are large multi-national corporations that hardly pay tax at all ...then there are those of us who diligently fill out our paperwork and do our returns year on year. SMEs are the backbone of this economy as large companies do not pay their fair share."

Mid-size business, Human health and social work, high opportunity/acceptance

Some businesses felt that the UK tax system is overly complicated, including some of the language used and what constitutes being eligible for various tax credits such as Research and Development (R&D). A couple of businesses reported that they have found it difficult to get in touch with HMRC, for example to resolve an error.

A few businesses had an issue with paying VAT, claiming that those not liable to pay it have an advantage as they can price their goods and services more competitively which makes the system seem unfair. Meanwhile, one business highlighted their displeasure with the amount of corporation tax they are required to pay.

Views on the level of tax paid

When asked whether they think their business ought to pay the level of tax that they do, several businesses deemed the amount they pay as reasonable. However, others felt that they should pay less. One business explained that they do not have the resource to pay for top accountants and tax advisors that will enable them to pay less tax and instead be able to invest more in their business. One business in the agricultural sector explained that they think they ought to pay less tax as they can only operate their business for six months of the year.

A few businesses highlighted that they think smaller businesses should not be required to pay as much tax. One explained that they think the tax system in the UK is regressive and affects lower income groups disproportionately – for example self-employed people cannot get sick or holiday pay and find it very hard to get mortgages.

Meeting UK tax system requirements

Many businesses reported no issues in meeting all of the UK tax system requirements for their business, however, it is worth noting that several highlighted the fact that they employ an accountant to handle their tax affairs. Some businesses also stated that accountancy software makes meeting the requirements easier.

"It's quite simple, we have online accounting software which makes it easy for everyone to follow to it up. We have regular meetings with our bookkeepers, they ask us to upload this or that; it's quite smooth."

Small business, Professional, scientific and technical activities, high opportunity/acceptance

Meanwhile, some businesses deemed it difficult to meet all of the tax system requirements for their business because the system is complicated.

"There are so many complexities involved. I do my very best to get it right in terms of things like VAT and Corporation tax, but I always worry that I might have done something incorrectly because I'm not aware of a new rule or something like that".

Small business, Education, high opportunity/acceptance

One business stated that the digitalisation of the tax system has further complicated the process and does not make it any more accurate.

"{Going digital is} Daft and pointless and no more accurate where HMRC is concerned, and certainly not making my life any easier or any less likely that I will make a mistake on the first spreadsheet."

Small business, Manufacturing, high opportunity/acceptance

'Grey' areas

The qualitative interviews explored whether there are any aspects of compliance that businesses see as 'grey areas' – defined during the interview as 'laws that could be considered vague and open to interpretation'. Positively, most businesses did not state any such areas of the UK tax system. A few businesses felt there was some confusion around VAT in terms of what it applies to and why their business would be subject to paying VAT.

A couple of businesses thought that the rules around eligibility for R&D tax credits was unclear. One business explained they have been contacted by a third-party company about claiming the allowance.

"We are always trying to develop new tools and improve on the ones we have, and in the last few years there have been a lot of third-party companies approaching us saying that they can get more tax relief for us by massaging our R&D use."

Mid-size business, Wholesale and retail trade, low opportunity/acceptance

One business in the arts, entertainment and recreation sector explained that knowing the correct tax codes for hot and cold food/drinks and whether it is eat-in or take away is complex. This was the only 'grey area' mentioned that is specific to a particular sector – in this case the hospitality sector.

Statutory sick pay and concessions for overnight accommodation for staff were also mentioned as not being straightforward to understand.

Barriers to complying with tax obligations

The main barrier highlighted to complying with tax obligations was the ability to understand the system and what one is required to do. While this was not a personal concern for most as they employ expert help, businesses felt this would be a particular barrier to small businesses that do not have an accountant to help them with their tax affairs. Some specifically said that they would struggle without an accountant.

It was believed that smaller businesses were more likely to have little resource to keep up with changing rules and regulations and face further financial impacts if they have to pay an external accountant. The cost associated with new software was also mentioned as a possible barrier to small businesses complying with their tax obligations.

One business mentioned the current Covid-19 pandemic as a barrier for some businesses, in particular the hospitality sector that will have seen a significant drop in income but will still be required to pay last year's tax bill.

When asked to consider what HMRC could do to help businesses, keeping the rules consistent, simplifying tax codes and using simpler language in their guidance was noted by businesses. Greater tax relief or more flexibility with payments to help SMEs during the current pandemic was also reported as a way in which HMRC could help. One business felt that HMRC could offer more support and training to small businesses, for example running webinars to help businesses better understand their responsibilities.

“

IFF Research illuminates the world for organisations businesses and individuals helping them to make better-informed decisions.”

Our Values:

1. Being human first:

Whether employer or employee, client or collaborator, we are all humans first and foremost. Recognising this essential humanity is central to how we conduct our business, and how we lead our lives. We respect and accommodate each individual's way of thinking, working and communicating, mindful of the fact that each has their own story and means of telling it.

2. Impartiality and independence:

IFF is a research-led organisation which believes in letting the evidence do the talking. We don't undertake projects with a preconception of what "the answer" is, and we don't hide from the truths that research reveals. We are independent, in the research we conduct, of political flavour or dogma. We are open-minded, imaginative and intellectually rigorous.

3. Making a difference:

At IFF, we want to make a difference to the clients we work with, and we work with clients who share our ambition for positive change. We expect all IFF staff to take personal responsibility for everything they do at work, which should always be the best they can deliver.