

Cash and digital payments in the new economy: call for evidence
Response from the Low Incomes Tax Reform Group (LITRG)

1 Executive Summary

- 1.1 We welcome the opportunity to respond to this consultation. Tax education is key to improving social and ethical morality with regards to tax evasion and the use of the hidden economy. The government needs to encourage tax education by changing the national curriculum to devote more time to and prioritising the importance of financial education.
- 1.2 The government must continue to give a choice to people who want to use cash and encourage, where possible, that cash does not become a more expensive alternative to using digital payments as this will impact low-income households and more vulnerable groups in society, possibly causing further financial hardship or debt. Also, the government should take steps to ease accessibility to digital payments for low-income households to enable them to take advantage of efficiencies offered by digital payments.
- 1.3 The government needs to tackle the perception of the general public that ‘big businesses’ and wealthy individuals receive more favourable tax treatment through the current tax system. Until this perception is tackled, it will be harder for the government to increase the general public’s social and ethical morality in relation to tax compliance. A possible way to do this is by highlighting to the general public how much tax revenue is lost to tax evasion,

criminal activities and the hidden economy compared to tax avoidance (40% compared to 5% based on the tax gap for 2015-16).¹

- 1.4 The publication of the final report on the Business Record Checks (BRC) initiative would be very useful when trying to understand the record-keeping position of small businesses. We consider that the publication of this report would provide a key source of information for this call for evidence when considering how to encourage or mandate the use of business receipts. It is frustrating that this report has yet to be published.
- 1.5 Although the trading and property allowances (introduced in the 2017/18 tax year) have sometimes been promoted as an opportunity for the taxpayer to cut back on administrative burdens, yet LITRG have been working with HM Revenue & Customs (HMRC) to try and improve the guidance on GOV.UK with respect to record-keeping and these new allowances, emphasising the importance of record-keeping for all businesses. The GOV.UK website used to contain detailed examples on what constitutes appropriate records for income and expenditure. However, these examples appear to have recently disappeared or been moved. This is a counter-productive action as it is reducing the information available to assist unrepresented businesses which are trying to ensure their record-keeping is correct, as well as undermining the government's position on trying to encourage accurate business record-keeping.

2 About Us

- 2.1 The LITRG is an initiative of the Chartered Institute of Taxation (CIOT) to give a voice to the unrepresented. Since 1998 LITRG has been working to improve the policy and processes of the tax, tax credits and associated welfare systems for the benefit of those on low incomes. Everything we do is aimed at improving the tax and benefits experience of low-income workers, pensioners, migrants, students, disabled people and carers.
- 2.2 LITRG works extensively with HMRC and other government departments, commenting on proposals and putting forward our own ideas for improving the system. Too often the tax and related welfare laws and administrative systems are not designed with the low-income user in mind and this often makes life difficult for those we try to help.
- 2.3 The CIOT is a charity and the leading professional body in the United Kingdom concerned solely with taxation. The CIOT's primary purpose is to promote education and study of the administration and practice of taxation. One of the key aims is to achieve a better, more efficient, tax system for all affected by it – taxpayers, advisers and the authorities.

¹ Chart 4.A Page 15 – Cash and digital payments in the new economy: call for evidence
(https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/689234/Cash_and_digital_payments_in_the_new_economy.pdf)

3 Introduction

3.1 We welcome the opportunity to respond to this call for evidence because, as stated in the HM Treasury paper, 2.7 million people in the UK (4% of the total population of 66.5 million) are entirely reliant on using cash instead of digital payments and over half of people who predominantly use cash come from low-income households.¹ Moreover, according to the paper, 45 million people in the UK (67% of the total population) use some combination of cash and digital payments. It is unlikely that all of these people would be willing or able to use digital payment methods only. This might be for various reasons, good and bad, but the key risk from a public policy viewpoint is that some people will be unable to use digital payments because of limited financial resources and related issues. It is therefore very important that decisions being made on the future role of cash must carefully consider the implications for more vulnerable groups within society such as households on low incomes and pensioners.

3.1.1 The call for evidence is very wide-ranging and we have only responded to the questions we have experience to answer and where we consider we can add the most value. Therefore, we have focused on the following questions only: 2, 6, 18, 20 and 21. Paragraph 3.2 below, discusses our general concerns regarding cash and digital payments which are not covered by the specific questions.

3.2 *General Comments*

3.2.1 We are very concerned about the lack of financial education for young people both through the education system and within 'everyday' situations. Unfortunately, it seems possible that one of the disadvantages of a predominantly cashless society is that young people are not being exposed to using cash and therefore their experience and skills of using physical money, calculating change from transactions and cash budgeting (such as tracking incoming money and outgoings) are becoming more limited. Research for the Skills for Life survey (2011)² shows that numeracy levels in adults have declined between the years 2003 and 2011. This raises the question whether, as understood by some educationalists, the advent of the cashless society is leading to a reduction in exposure of young people to using cash and the ready reckoning (calculating change from transactions, etc.), thereby limiting their numeracy skills.

3.2.2 We would like reassurance from the government that any decision regarding further encouragement to move to digital payments will also consider the impact on individuals falling into financial hardship or debt. The promotion of using credit cards (or debit cards if also given a bank overdraft facility) could encourage consumers to spend more than if they were only or predominantly using cash. We consider that it is the role of a responsible

¹ Paragraphs 1.3 and 3.2 – Cash and digital payments in the new economy: call for evidence (https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/689234/Cash_and_digital_payments_in_the_new_economy.pdf)

² Skills for Life survey (2011): <https://www.nationalnumeracy.org.uk/research-skills-life-survey-2011>

government to look at any changes to cash and digital payments in conjunction with the possible effect on personal debt especially as cash is used more by low-income households and vulnerable people.

4 Question 2: Drivers of choice of payment method: What further action could the government take to support greater adoption of digital payments by merchants and consumers (including civil society groups)?

- 4.1 It is reassuring that the call for evidence states that the government will 'ensure that the ability to pay by cash is available for those who need it'.¹ We agree that the government must continue to give a choice to people who want to use cash and encourage, where possible, that cash does not become a more expensive method of payment for people who are unable or would *prefer* not to use digital payments, while accepting that for an increasing number of people digital payments are more convenient and popular.
- 4.2 For example, many schools now operate on a cash-free basis, which, although it may reduce the time spent on processing payments and banking physical cash, does assume that all parents have regular secure access to the internet and also credit or debit cards to pay for school lunches and activities. It would be helpful if the government could investigate whether banks or payment companies, such as ParentPay, could provide simple, low-cost alternative payment facilities which would allow low-income households and vulnerable groups access to make digital payments.
- 4.3 We consider it important that people continue to have a fair choice whether to pay by cash or through digital payments. Some people could use digital payments but choose not to because they feel more confident using cash, this issue could be addressed by improving education on using digital payments, for example through workshops held by banks and building societies. There are also numerous news stories about problems with digital payment systems, whether from online fraud or problems with banking systems deterring some people from using digital payment options; these risks, or perceived risks, must be addressed if the government wishes to encourage the use of digital payment methods. A potential way to address these risks is through education of the general public, by explaining how to make digital payments as risk-free as possible, this could be through media campaigns and workshops hosted by the banking industry. Also, the government should work with banks and payment facilitators to reduce the risk of digital fraud and theft.

¹ Paragraph 1.4: Cash and digital payments in the new economy: call for evidence
(https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/689234/Cash_and_digital_payments_in_the_new_economy.pdf)

5 Question 6: How does cash usage and need vary by demographics, geography, and socio-economic status?

- 5.1 We consider that this will be a constantly developing situation as the UK demography changes, with an increasingly ageing population, and also as the technology for digital payments continues to progress. It is extremely unlikely that cash usage will ever diminish to insignificant levels because even when confidence using digital payments increases there will often be a point where age or illness results in a person being unable to keep up with new developments in digital payment technology.
- 5.2 Some low-income households may find it easier to budget with physical cash instead of using credit cards which can encourage personal debt; especially low-income households who need to access small amounts of cash at a time and only have a cash withdrawal card and not a bank payment card, such as a debit or credit card. Also, some vulnerable groups in society will be affected by a reduction in cash usage, such as homeless people or some charity collectors.

6 Question 18: What further action should the government take to reduce tax evasion, hidden economy, and money laundering associated with cash to ensure a fair and level-playing field for tax compliant businesses?

- 6.1 Education would be the most useful tool over the long term as it could encourage tax compliance by explaining that revenue collected from tax is used to provide public services. This increase in understanding should lead to a higher social and ethical morality regarding tax evasion which should then reduce participation within the hidden economy; however, the government must also address the public perception issue discussed in paragraph 7.1 below. HMRC have made a positive start with this by producing short 'Tax facts' films for school pupils explaining tax and also topics such as the hidden economy¹ however we have concerns that in a target-driven, overcrowded school curriculum these films will not be shown or discussed during lessons. The government needs to prioritise tax and financial education as a core requirement of the national curriculum and ensure that school teachers have the appropriate training and necessary support to enable them to teach these topics with confidence.

7 Question 20: How can the government use behavioural insights and nudge techniques to address cash related tax evasion, hidden economy, and money laundering?

- 7.1 We agree with the statement in paragraph 4.19 in the call for evidence paper that 'A tax system that is thought to be unfair (e.g. where rules aren't applied proportionately) can

¹ Tax facts: The hidden economy YouTube film: <https://www.youtube.com/watch?v=pmo4KczADZk>

make it easier for people to justify non-compliance’.¹ Unfortunately, there is a perception among the general public that ‘big businesses’ and wealthy individuals can get away with tax non-compliance or are able to take advantage of more favourable tax planning as they can afford professional tax advice; because HMRC are only interested in targeting small businesses. The government needs to tackle this perception as a high priority if it wants to increase social and ethical morality regarding tax compliance. For example, if this perception is unfair then the government needs to address the general public’s concerns on this issue and clearly explain why this is not the case; this may be achieved through awareness-raising campaigns. However, if the general public’s perception is considered a fair view then this needs to be tackled with the appropriate resources to do so, for example, simplifying parts of the tax system whereby unrepresented taxpayers struggle to understand and form a sensible judgement on how to manage their tax affairs using the reliefs and exemptions that Parliament intended. Also, the government tends to focus on publicising policy on tax avoidance rather than illegal activities such as tax evasion, the hidden economy and money laundering; perhaps a change in emphasis or balance may make the public aware of the amount of tax lost by these illegal activities? For example, using the information on Chart 4.A² it can be seen that evasion, criminal attacks and the hidden economy account for 40% of the tax gap for 2015-16 compared to tax avoidance which only accounts for 5% of the tax gap. It would be helpful if the general public was made more aware of the amount of public services which could be funded by collecting the estimated £13.8 billion tax lost to evasion, criminal attacks and the hidden economy, this in turn could increase tax morality and compliance.

- 7.2 Most people want to be tax compliant and we agree that a positive message may be a more effective approach to ‘nudge’ people to be, or to continue to be, tax compliant. For example, in some of the HMRC compliance campaigns, HMRC’s letters set out statistics or broad general statements on the number of people who do disclose their full taxable income. The government will want to consult with HMRC officials with experience of compliance campaigns to identify which approach works best with specific taxpayer profiles.
- 7.3 There is also a risk that some small businesses may be discouraged from tax compliance due to recent and proposed changes to the tax system. For example, there have been a number of significant changes required by HMRC and other government organisations, such as auto-enrolment and Real Time Information (RTI), and in the near future there will be requirements for Making Tax Digital for Business (MTDfB). Some small businesses may consider that it is not worth continuing to trade or perhaps being tax-compliant with their business revenue due to the cost and time involved in complying with these new rules. This

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² Chart 4.A Page 15 – Cash and digital payments in the new economy: call for evidence
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issue could be addressed by making it easier to comply, encouraging compliance and ensuring that initiatives such as RTI and MTDfB do not act as a possible incentive to move into the hidden economy, by minimising the burdens these place on small businesses.

- 7.4 Chart 4.A in the call for evidence paper illustrates how the tax gap is comprised by analysing taxpayer behaviour. It shows that the highest 'tax gap' behaviour is 'failure to take reasonable care' which accounts for 18% of the 2015-16 tax gap and 'error' also accounts for 10%.¹ If the government wants to reduce the tax gap, we recommend that it focuses on both improving the tax guidance on GOV.UK and increasing access to highly trained HMRC staff as this would assist with tax queries from taxpayers, who want to be compliant but may struggle to understand the complex tax system and therefore make mistakes when dealing with their tax affairs.

8 Question 21: How can government encourage declarations of activity paid for by cash across the economy, including individuals, intermediaries and businesses (such as encouraging or mandating the use of receipts)?

- 8.1 Unfortunately, we are unable to give a full answer as we are still awaiting HMRC's BRC final report which should summarise the findings of the BRC initiative. We have been waiting for the publication of this report for a significant period of time. In fact, the draft report was discussed at the BRC sub-group in October 2014, some three and a half years ago. At the BRC sub-group meeting HMRC indicated that business records of small businesses were more accurate and complete than had been anticipated. While we accept that tax evasion, the hidden economy and money laundering continue to occur and should be dealt with, it is incredibly frustrating that this report is still unpublished but we are frequently asked questions regarding businesses keeping complete accounting records.
- 8.2 Although the trading and property allowances (introduced in the 2017/18 tax year) have sometimes been promoted as an opportunity for the taxpayer to cut back on administrative burdens, yet LITRG along with the Association of Taxation Technicians (ATT) have been working with HMRC to try and improve the guidance on GOV.UK with respect to record-keeping and these new allowances. LITRG and the ATT want the GOV.UK guidance to emphasise the importance of record-keeping, even if you are covered by these allowances, as we consider it encourages good practice for when a business activity grows and enables more considered business decisions to be made, for example whether or not to claim the trading allowance.

¹ Chart 4.A Page 15 – Cash and digital payments in the new economy: call for evidence
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- 8.3 GOV.UK used to contain detailed examples on what constitutes appropriate records for income and expenditure. These examples were drafted with input from professional bodies as part of the BRC initiative. However, they appear to have recently disappeared or been moved from the GOV.UK website. This is a counter-productive action as it is reducing the information available to assist unrepresented businesses which are trying to ensure their record-keeping is correct, as well as undermining the government's position on trying to encourage accurate business record-keeping.
- 8.4 We remain unconvinced that the mandation of keeping receipts electronically, such as through the MTDfB initiative, will result in compliance by businesses who are actively seeking to remain in the hidden economy or continue to deliberately evade tax. Our concerns about this form of electronic mandation and the requirement to use MTDfB compliant software is that there are certain businesses, which, for a variety of reasons, will be unable to comply with these new regulations. These are detailed in our consultation responses on Making Tax Digital.¹

LITRG
24 May 2018

¹ LITRG responded to the six MTD consultations in November 2016, the responses can be seen here: <https://www.litrg.org.uk/latest-news/submissions/161108-making-tax-digital>