

**Hidden economy conditionality: Northern Ireland and Scotland  
Response from the Low Incomes Tax Reform Group (LITRG)**

**1 Comments**

- 1.1 We welcome the opportunity to respond to this consultation on extending tax conditionality to certain public sector licenses in Northern Ireland and Scotland.
- 1.2 LITRG has been an active stakeholder throughout the development of these new requirements in England and Wales. We responded to the August 2016 and December 2017 consultations,<sup>1</sup> commented on the draft legislation published in July 2020,<sup>2</sup> provided evidence to the House of Lords Economic Affairs Finance Bill Sub-Committee to their enquiry into this legislation,<sup>3</sup> and issued a briefing on the latest legislation contained in the Finance Bill 2021.<sup>4</sup> Our comments in these submissions have focussed on how the new requirements will affect low-income and unrepresented taxpayers. In general, our previous comments will apply equally to affected taxpayers in Northern Ireland and Scotland as well as England and Wales.

---

<sup>1</sup> <https://www.litrg.org.uk/sites/default/files/files/161014-LITRG-response-Hidden-economy-Conditionality-FINAL.pdf>, <https://www.litrg.org.uk/sites/default/files/files/180302-LITRG-response-Public-Sector-Licensing-FINAL.pdf>

<sup>2</sup> <https://www.litrg.org.uk/sites/default/files/files/150920-LITRG-response-New-tax-checks-on-licence-renewal-applications-draft-legislation.pdf>

<sup>3</sup> <https://committees.parliament.uk/publications/4097/documents/40546/default/>

<sup>4</sup> <https://www.litrg.org.uk/sites/default/files/files/LITRG-Finance-bill-briefing-2021-Clause-121-Schedule-32-Licensing-authorities.pdf>

- 1.3 For example, for conditionality to be effective it should be paired with a greater focus on educating the public about the importance of using licensed businesses in the first instance. HMRC should consider how a different approach to effect this may be appropriate in different parts of the UK. This will help prevent businesses determined to avoid their tax obligations being driven further into the hidden economy by operating without even the relevant licence.
- 1.4 We see the obligation on licensing authorities to provide tax information to first-time licence applications as a positive step to help prevent taxpayers from entering the hidden economy out of ignorance of their obligations. We urge HMRC to ensure that such prescribed information can be easily understood by unrepresented taxpayers and by those who may not have easy access to the internet.
- 1.5 Although we have no direct experience of the licensing process for the proposed sectors in Northern Ireland and Scotland, we agree with the principle that if tax conditionality is to apply, it should apply across the whole of the UK. Otherwise, having disparate processes across different parts of the UK risks driving hidden economy activity across borders rather than eliminating it.
- 1.6 On the other hand, HMRC may consider delaying the introduction of the requirements in Northern Ireland and Scotland until such point that they have sufficient evidence to review the effectiveness of the measure in England and Wales – and thus be able to conclude whether the requirements should be extended nationwide or otherwise be removed entirely.
- 1.7 We encourage HMRC to ensure that the administrative burden on both the taxpayer and the licensing authority is minimised as far as possible to achieve the policy aim. This will include, as HMRC appear to be proposing, not introducing additional requirements for licenses where tax-related checks already exist, such as for taxi operators in Northern Ireland.
- 1.8 Throughout the consultation process for the introduction of the new requirements in England and Wales, it became clear that certain groups of taxpayers are disproportionately represented in the relevant sectors – as confirmed in the *Assessment of impacts*. Such groups may be more likely to be digitally excluded or otherwise digitally challenged. We encourage HMRC to consider the demographic of the affected taxpayers in Northern Ireland and Scotland to identify whether any additional support is required.
- 1.9 While we welcome HMRC's commitment to provide a non-digital means of complying with these requirements, we are disappointed at the lack of detail about how this will work in practice. In addition, it is not clear what protection taxpayers have in case of HMRC delay (meaning the tax check is not completed in time) in a non-digital process, which *in extremis* may impact on a taxpayer's ability to continue trading. For example, under the draft legislation for England and Wales, there is no requirement on HMRC to complete the tax check within a certain timeframe. This is compounded by the fact that an individual cannot determine in advance the first day from which they can request a tax check in order for it still to be valid. We ask that both points be addressed both in the legislation which will apply in England and Wales and the legislation that will apply in Scotland and Northern Ireland.

## **2 About Us**

- 2.1 The Low Incomes Tax Reform Group (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 HM Revenue & Customs (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.

LITRG  
21 June 2021