



HM Revenue  
& Customs

# Tackling the hidden economy: public sector licensing

## **Consultation document**

Publication date: 8 December 2017

Closing date for comments: 2 March 2018

<b>Subject of this consultation:</b>	This consultation proposes ‘conditionality’ measures to tackle the hidden economy. This would make compliance with certain tax obligations a condition of holding some licences, and introduce checks on applicants’ tax-registration status as part of licensing processes.
<b>Scope of this consultation:</b>	The consultation suggests licensing regimes which could be suitable for changes to introduce conditionality. It seeks feedback on their suitability for the proposed changes, and outlines ways that tax-registration checks could be administered and enforced.
<b>Who should read this:</b>	In particular, we would like to hear from local authorities and national bodies that administer relevant licences, trade bodies, small businesses, individuals, and representative or professional bodies with expertise in tax administration.
<b>Duration:</b>	The consultation will run from 8 December 2017 until 2 March 2018.
<b>Lead official:</b>	Jamie Horton and Georgina Treacy
<b>How to respond or enquire about this consultation:</b>	<p>Please send e-mail responses to:  <a href="mailto:isbc.compliancepolicy@hmrc.gsi.gov.uk">isbc.compliancepolicy@hmrc.gsi.gov.uk</a></p> <p>Please send written responses to:            Georgina Treacy, HMRC            Room G/72            100 Parliament Street            London            SW1A 2BQ</p>
<b>Additional ways to be involved:</b>	HMRC officials would like to meet interested parties to discuss any aspect of this consultation and will be organising meetings following publication.
<b>After the consultation:</b>	A response document will be published. The government will consider proposals to develop draft legislation to introduce conditionality measures.
<b>Getting to this stage:</b>	HMRC published an initial consultation in August 2016. This discussed the principles of developing conditionality in order to tackle the hidden economy. A response document was published in March 2017.
<b>Previous engagement:</b>	HMRC met with a range of stakeholders as part of the initial consultation exercise, including small business representative bodies, tax organisations and the Local Government Association. HMRC officials have met with a number of licensing authorities, including local authorities to discuss conditionality proposals, and have engaged with other government departments in developing these proposals.

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# Executive Summary

1. This consultation proposes options to tackle the hidden economy by making access to licences needed to trade conditional on tax compliance, known as 'conditionality'.
2. The first chapter outlines how these proposals fit into HMRC's compliance strategy: the best way to tackle non-compliance is to prevent it from happening in the first place. HMRC aims to promote compliance by designing it into systems and processes, enabling customers to get their affairs right from the outset. At the same time, HMRC aims to prevent and respond to non-compliance by identifying and targeting the areas of greatest risk, and using tough measures to tackle those who deliberately try to cheat the system.
3. HMRC published a first consultation on the principles of developing conditionality in August 2016, which was broadly well received. This consultation makes the case for initial changes to introduce tax-registration checks into some licensing processes administered by public-sector bodies.

## Chapter 2: options for applying conditionality through public sector licensing

4. Chapter 2 outlines specific licensing schemes which could be suitable for these changes. These have been selected because existing licence conditions align reasonably well with tax-compliance measures; they apply to sectors vulnerable to hidden economy activity; and there are broader potential benefits to be realised in driving up wider regulatory standards. Licences issued in the following sectors are included for consideration in the consultation:
  - private security,
  - taxi and private hire vehicles (PHVs),
  - waste management,
  - houses in multiple occupation (HMOs) and selective licensing in the private rental sector,
  - scrap metal, and
  - retail and trade.

## Chapter 3: options for developing tax-registration checks

5. Chapter 3 sets out the principles for how HMRC and licensing authorities should work jointly to ensure that those applying for licences are correctly registered. Key principles of this process include:
  - **New applicants should be signposted towards tax obligations and HMRC services:** Checks applying to first-time applicants aim to ensure that they understand their taxable status and are able to register as soon as possible after they begin trading.

- **Checks should apply to those renewing licences:** Checks carried out at the renewal stage would ask applicants to confirm and provide evidence of their tax-registration status.
- **No requirement upon licensing authorities to carry out more detailed tax checks:** The government would not expect licensing authorities to provide advice to applicants on their tax status. Applicants requiring particular support or advice could be directed towards appropriate HMRC services.

## Chapter 4: minimising burdens and impacts

6. Chapter 4 discusses how HMRC would seek to minimise burdens. This includes safeguards intended to ensure applicants for licences are not required to register earlier than they currently need to under law. It also seeks feedback on how privacy impacts can be minimised and how HMRC could ensure that minimal new requirements are placed upon licensing authorities.

## Chapter 5: next steps and further options for conditionality

7. Chapter 5 outlines the link between the current proposals and longer-term options to develop conditionality. The government would like to explore the potential for these proposals to act as a first step in a longer-term roadmap for developing conditionality. This could, in time, see simple tax checks integrated into more of the essential services or platforms that businesses use to trade.

# 1. Introduction

## The hidden economy and its impact

1. The majority of UK taxpayers pay what they owe, but a small minority are active in the 'hidden economy'. The term hidden economy refers to individuals and businesses with sources of taxable economic activity that are entirely hidden from HM Revenue & Customs (HMRC).
2. In 2015 HMRC commissioned the first major survey<sup>1</sup> in Great Britain to assess the relative sizes of different hidden economy groups, and collect other behavioural and attitudinal information, such as why people find themselves in the hidden economy.
3. The hidden economy deprives the government of funding for vital public services. The hidden economy tax gap<sup>2</sup> is estimated at £3.5 billion for 2015-16 (the most recent year for which an estimate has been calculated) and is the fifth largest behavioural component of the 2015-16 tax gap. The hidden economy tax gap has remained relatively stable since 2009-10 at around 10% of the total tax gap.
4. The hidden economy also distorts fair competition and is linked to wider rule breaking and criminality, including money laundering, health and safety violations, failure to comply with employment rights and immigration offences.

## Tackling the hidden economy

5. HMRC is committed to achieving a significant and sustained narrowing of the hidden economy tax gap. Tackling the hidden economy is also a crucial part of our role in supporting and creating a level playing field for compliant customers.
6. The best way to tackle non-compliance is to prevent it happening in the first place, while cracking down on the minority who do break the rules, so we are:
  - promoting good compliance by designing it into our systems and processes, enabling customers to get their affairs right from the outset,
  - preventing non-compliance by using the data we have to spot mistakes, prevent fraudulent claims, personalise online services and automate calculations, and
  - responding to non-compliance by identifying and targeting the areas of greatest risk, and using tough measures to tackle those who deliberately try to cheat the system.<sup>3</sup>
7. We know that some people enter the hidden economy because they think it would be difficult to register and declare their income to HMRC. And that some of those who are in the hidden economy find it more difficult to come forward

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<sup>1</sup> <https://www.gov.uk/government/publications/the-hidden-economy-in-great-britain>

<sup>2</sup> The tax gap is the difference between the amount of tax that should, in theory, be collected by HMRC, and what is actually collected. <https://www.gov.uk/government/statistics/measuring-tax-gaps>

<sup>3</sup> HMRC Strategy, published on 20 July 2017.

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/629941/HMRC-Strategy.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/629941/HMRC-Strategy.pdf)

and declare their earnings the longer they have been hidden from HMRC. This is one of the reasons why the government is making it easier than ever to register for, and pay tax through, highly accessible digital services. HMRC is also expanding and updating the support it provides to new business, helping them to understand and comply with their tax obligations at the earliest opportunity.

8. At the same time, the government is developing new ways to divert people away from non-compliance before it occurs, including through closer working with intermediaries to play an active role in helping customers to understand and comply with their tax obligations.
9. This consultation, which was announced at Autumn Budget 2017, proposes measures to introduce tax registration checks into some of the key public sector approvals that individuals and businesses need in order to trade.

### **Aim of the consultation**

10. Few businesses can exist in a vacuum: most require services from other businesses, or approvals and services from part of local or national government. The proposals included in this consultation would integrate tax-registration checks into some of these existing approvals to encourage more customers to engage with the tax system at the right time.
11. These proposals would support a key aim of our strategy: to crack down on the hidden economy by preventing people from entering it in the first place. They would promote tax registration, helping customers to better understand their obligations to register for tax and the simple steps they need to take to declare their income to HMRC.
12. This is in everyone's interests: compliant businesses benefit from a level playing field where everyone pays their fair share of taxes. Regulators and licensing authorities may benefit from improved standards when licence holders comply with their key responsibilities for tax. And the broader public benefits from the additional tax that is protected through a reduction in the hidden economy tax gap.

### **Scope of the consultation**

13. This consultation is intended to help HMRC to develop proportionate measures which work in the interests of compliant customers.
14. The consultation suggests specific sectors which HMRC believes would be suitable for the proposed changes. We welcome comments, in particular, from those who issue or receive licences and permits for the below activities:
  - private security,
  - taxi and private hire vehicles (PHVs),
  - waste management,
  - houses in multiple occupation (HMOs) and selective licensing in the private rental sector,
  - scrap metal, and

- retail and trade.
15. The consultation does not set out firm proposals for how checks on licensees' tax-registration status should be administered: any final proposals will be informed by the outcome of this consultation. We want to hear from licensing authorities to identify the best options for delivery which would help to promote shared regulatory objectives.
  16. The checks that are described in this consultation refer to whether or not a person is appropriately registered for tax. Individuals or business can have different requirements to register for tax depending on their circumstances. But for the purposes of this consultation, the aim would be to determine whether or not a person is registered through one of the following routes:
    - **Obligations to register for Self Assessment:** when people are setting up or operating as self-employed or a partnership, they should be registering for Self Assessment to pay income tax and Class 2 National Insurance. People who are known to HMRC through Pay As You Earn (PAYE) but who have additional sources of income to report, such as income from rental property, also need to register for Self Assessment.
    - **Obligations to enrol employees for tax:** employees should be registered for tax by their employer. Income tax and national insurance from employment is normally collected by employers through the Pay as You Earn (PAYE) system.
    - **Obligations to register for Corporation Tax:** private limited companies need to register for Corporation Tax within three months of starting to do business.
  17. Tax registration is a simple marker of compliance because it evidences whether a person has told HMRC about a particular source of their taxable income. Individuals or businesses who are not properly registered when they should be, have either their entire income, or part of their income, hidden from HMRC.
  18. People can also be in the hidden economy due to a failure to register for VAT, where their VAT taxable turnover is above the statutory threshold. It is not the aim of the specific checks described in this consultation to determine whether or not a person should be registered for VAT.
  19. Likewise, the checks described in this consultation would not need to determine the correct employment status of a person applying for a licence. The question of whether or not a person is self-employed or employed for tax purposes can depend upon a number of factors, on which HMRC provides guidance and support. Instead, checks would simply aim to establish that a person is not in the hidden economy, by confirming that their earnings in a licensed sector are being reported to HMRC through one of the routes described at paragraph 16.

## Progress to date

20. In August 2016 HMRC published a first consultation paper on conditionality which sought views on how tax-registration checks can be best applied as a way of tackling the hidden economy. It covered options to apply conditionality to both public sector licences and services provided to businesses by private-



sector providers, such as financial or insurance services, and online platforms that link businesses with customers.

21. The majority of responses agreed that HMRC should be focussing on new ways to tackle the hidden economy, and recognised that conditionality could be an effective way to support compliance.
22. In particular, feedback highlighted that many small businesses and their representative groups are very concerned about the unfair competition posed by those operating in the hidden economy – particularly, when they don't comply with their wider legal duties or provide customers with an appropriate level of service. This also reflects concerns highlighted directly to HMRC by members of the public about the damaging effects that unregistered businesses have on compliant taxpayers. Many of HMRC's customers feel that hidden economy activity distorts fair competition, making it harder for businesses to operate on a level playing field.
23. Most responses to the consultation were also clear that any approach to conditionality must minimise burdens upon compliant businesses, and providers of licences and business services.
24. Several responses said that public-sector licences would be a good basis for initial proposals. Following the consultation, the government recognised that there is a strong case that some public sector licences should be subject to conditionality. The government said it would develop further proposals, and consider further the longer-term case for conditionality in the private sector.

### Longer term options

25. This consultation makes the case for some initial changes to introduce conditionality in sectors that are affected by the hidden economy and associated non-compliance. The aim is to achieve simple, easy-to-administer changes that would divert more customers away from the hidden economy, and make it harder to trade as a hidden business.
26. The government would like to explore the potential for these proposals to act as a first step in a longer-term roadmap for developing conditionality. This could, in time, see simple tax checks integrated into more of the essential services or platforms that businesses use to trade.
27. The government recognises that the design of these proposals, and their impacts upon customers and third parties, would need to be carefully assessed. They would also be developed in line with the government's ongoing proposals to transform tax and payments for HMRC customers.
28. Longer-term options to develop conditionality could drive down hidden economy activity on a larger scale, and support a level playing field for businesses.

# Chapter 2: options for applying conditionality through public sector licensing

## Introduction

29. This chapter sets out options for introducing tax-registration checks through public sector licensing schemes. It identifies several licences that the government believes would be appropriate and seeks feedback on the proposals.
30. The government has taken account of the results of HMRC's first consultation on conditionality in identifying these licences. That earlier consultation set out a number of principles that HMRC should use to identify suitable licences (or services). These principles were endorsed by the majority of respondents. In particular the government has taken account of the following factors:
- **Alignment of conditionality with existing licensing rules:** licences selected have existing conditions that align reasonably well with legal obligations to register-for and pay tax. For example several of the licences concerned already include 'fit and proper person' tests which may include assessments of the applicant's financial integrity. Introducing tax registration checks within these licensing schemes would be reasonably compatible with existing rules.
  - **Risks posed by the hidden economy:** good standards of overall compliance exist in these sectors, and the government recognises that the large majority of those holding relevant licences wish to pay their fair share of tax. But a combination of factors make these sectors vulnerable to exploitation by a minority, who wish to undercut their competitors by staying hidden from HMRC. In recent years, HMRC has conducted taskforce<sup>4</sup> activity in a number of these sectors, demonstrating non-compliance by a minority within them.
  - **Potential wider benefits:** results from the first consultation suggested that a number of stakeholders recognise an overlap between businesses which are non-compliant for tax purposes, and those which may also be non-compliant in relation to other areas of regulation. Discussions between HMRC and regulatory or licensing authorities have highlighted that conditionality could carry broader compliance benefits. By integrating regulatory standards, and developing closer working between HMRC and other parts of local or national government, there may be opportunities to drive up standards for the benefit of compliant businesses, as well government and the public.

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<sup>4</sup>Taskforces were first launched in spring 2011 as part of HMRC's compliance strategy to tackle tax evasion and fraud. Taskforces bring together various HMRC compliance and enforcement teams for intensive bursts of activity targeted at specific sectors and locations where there is evidence of a high risk of tax evasion and fraud.

31. The government's intention would be to legislate to introduce conditionality for aspects of licensing that are within the competence of the UK Parliament. However, some licensing powers in the sectors described below are held by the Devolved Administrations in Scotland, Wales and Northern Ireland. The government will work with the Devolved Administrations to identify the extent to which they might wish to pursue similar aims to those described in this consultation.
32. Building on the outcomes of the first consultation, the following licensing schemes are likely to be areas that are suitable for changes to introduce tax-registration checks. The outcomes of this consultation would inform options for future policy design.

### **The private security industry**

33. Individuals in specific sectors of the private security industry, conducting licensable activities such as door supervision, close protection and manned guarding, require a licence from the Security Industry Authority (SIA). Front line licences are required for those undertaking licensable activity. Non-front line licences are required for those who manage, supervise and/or employ individuals who engage in licensable activity.
34. The SIA establishes licensing criteria in accordance with the Private Security Industry Act 2001. SIA licensing ensures that private security operatives are 'fit and proper' persons who are properly trained and qualified.
35. The SIA also runs an Approved Contractor Scheme (ACS), allowing organisations that meet agreed standards to advertise themselves as approved. Approved organisations are also able to complete and pay for licence applications online on behalf of employees. Currently 330,000 people hold a licence to operate from the SIA and over 800 businesses/organisations hold approved contractor status.
36. The SIA's application process includes checks on a person's identity, address history, right to work, criminality and mental health. Those applying for a front-line licence must also undergo a competency check and provide evidence that they hold relevant qualifications. All applicants must agree to a consent statement, which states that their information will be shared with government and private agencies, and accept a legal declaration, confirming that the data they have entered is correct. Licences are renewed every three years.
37. The SIA exists to improve standards in the private security industry, a sector affected by crime and tax evasion. For example, in 2015/16 the SIA progressed 39 cases towards a criminal prosecution for offences under the Private Security Industry Act. In addition, HMRC taskforces and operations have identified a range of risks in the sector, ranging from hidden-economy related activity to failures by employers to register employees for tax, through to serious fraud and evasion.
38. Introducing tax-registration checks to SIA licences, including front line and non-front line licences could strengthen existing regulation and help to raise standards of compliance further in the sector. Consideration could also be given to how HMRC could work with the SIA to support ACS contractors to demonstrate and maintain good standards of tax compliance.

## The waste management sector

39. The UK generated just over 200 million tonnes of waste in 2014. Nearly 60% of this was generated by the construction industry with households responsible for a further 14%. Nearly 45% of household waste is recycled, whilst a little over 20% is taken to landfill. Most waste is collected by private waste or reclamation contractors. This sector includes many small and medium-sized enterprises and covers a range of activity, from transportation of waste through to brokering and dealing, treatment, recycling and disposal.
40. The Environment Agency and Natural Resources Wales have responsibility for regulating the waste management sector in England and Wales respectively, and administer two regimes in which the government believes the application process aligns well with conditionality:
- **Permits for waste sites and exemptions to environmental permits for waste sites:** environmental permits are mandatory for those who wish to use, treat, store and dispose of waste. The rules on permitting are set out in the *Environmental Permitting (England and Wales) Regulations 2016*.  
  
Those undertaking operations with waste (other than operations deemed low or negligible risk) need to be considered 'competent' by the Environment Agency. This covers an operator's environmental record, technical competence, financial competence and (in some cases) financial provision. There are nearly 12,000 existing environmental permits for the waste sector in England and Wales.  
  
Low environmental risk sites require an exemption from the main permitting regimes. These are subject to renewal every three years and require the applicant to meet the limits and conditions of the exemption and to ensure their waste operation doesn't harm the environment or human health. There are currently around 500,000 exemptions registered with the Environment Agency and Natural Resources Wales for sites in England and Wales.
  - **Waste carrier licences:** the Environment Agency and Natural Resources Wales requires waste carrier licences to be held by those who transport waste; buy, sell or dispose of waste; or arrange for someone else to buy sell or dispose of waste as part of their business. Conditions are set out in the Waste (England and Wales) Regulations 2011. Licences need to be renewed every three years and currently do not include competency checks on the licence holder. The Environment Agency and Natural Resources Wales has issued around 130,000 of these licences in England and Wales.
41. The government recognises that waste sites operating under a permit or exemption play a critical role in managing waste to achieve high levels of resource efficiency. However, the ability to gain profits in short time periods and low barriers to entry in some areas has left the sector open to exploitation by a minority of unscrupulous operators.

42. Waste crime is a significant problem, which is estimated to cost the UK economy £604 million a year<sup>5</sup>. The impact of waste crime includes environmental damage (including degradation in the quality of local environments) but also economic damage, including loss to legitimate businesses and loss to the Exchequer through tax evasion. In 2015-16 (the latest year we have data available for) the tax gap for landfill tax was estimated to be £100 million.
43. The government believes that applying conditionality to permitting and licensing regimes in the waste management sector could help to strengthen existing regulation and make it harder for a small number of dishonest businesses to undercut compliant businesses in the sector. It could also act as a further deterrent to criminal activity in the waste sector, and support a number of improvements to existing regulation in the sector that government has announced over recent years.

### Scrap metal dealers

44. The Scrap Metal Dealers Act 2013 introduced a licensing scheme for individuals who deal with scrap metal in England and Wales. Under the Act, there are two types of licences: site licences and collector's licences. A site licence authorises the licensee to buy, sell and transport scrap metal to and from any site in a particular local authority (where the licence was applied for), from any local authority area. A collector's licence authorises the licensee to carry out business as a mobile collector, other than at a site, in a local council area. A mobile collector needs to hold a licence for every local council area in which they wish to collect scrap metal by way of door-to-door visits. Scrap metal dealers can only hold one type of licence in any one local authority area.
45. Licences are issued by local authorities, who also have responsibility for determining the suitability of a licence. Currently around 10,000 of these licences have been issued and they must be renewed every three years. Applicants for a scrap metal dealers' licence must provide identifying information, including on any company partners, and details of the nature and location of related activities. Applicants are also required to give the details of the bank account that will be used to pay for scrap metal.
46. The scrap metal industry is vulnerable to criminal activity through the trading of stolen metal. The 2013 Act was brought in to address a number of market failings, including the ease with which stolen metals could be traded anonymously and poor trading standards in the industry. The prevalence of cash transactions in the sector also created opportunities for tax evasion and hidden economy activity; the Act banned scrap metal dealers from trading in cash. The industry has also previously been subject to HMRC taskforce activity.
47. The government believes that applying conditionality to scrap metal licences could strengthen regulation in the sector, and help to better integrate the regime's focus on tackling crime and antisocial behaviour with HMRC's objectives.

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<sup>5</sup> The cost of waste crime to the UK economy in 2013 was estimated to be between £568 million and £808 million per year. The Environmental Services Association Education Trust (2014) *Waste crime: tackling Britain's dirty secret*.



## Taxis and Private Hire Vehicles

48. The government is responsible for setting the regulatory structure within which local licensing authorities in England and Wales license the taxi and private hire vehicle (PHV) sector. Regulation of the trade in Scotland and Northern Ireland is devolved to the Scottish Government and Northern Irish Assembly respectively and will be devolved to the Welsh Assembly from April 2018.
49. Vehicles for hire in the UK consist of taxis and PHVs. Taxis are legally able to pick up customers from the street without a booking in the area in which they are licensed and undertake pre-booked work outside this. PHVs are required to be pre-booked through an operator for all journeys. Individual local authorities are responsible for regulating the taxi and PHV trades and therefore conditions for licences vary – as does the legislation which underpins these. Licences are issued by local authorities in England, Wales and Scotland (and Transport for London), but by a national body in Northern Ireland.
50. There are three licensing regimes in this sector that the government believes may be suitable for conditionality:
  - **PHV driver licences:** These licences are required for anyone wishing to operate a PHV in the UK. Unlike taxis, PHVs must have their journeys pre-booked by an operator, sometimes via a 'taxi app'. PHVs include minicabs and chauffeur cars. Some PHV licence holders own their own vehicle and, often, enter into a contract with an operator for booking services. Alternatively, some PHV licence holders do not own their own vehicle but may lease their vehicle. There are around 242,200 PHV driver licences in operation across England and Wales. Sources of income for PHV drivers include cash work (where the passenger pays the driver at the end of the journey) and payment routed through an operator.
  - **PHV operator licences:** Operators provide bookings for PHVs. There are around 15,000 PHV operators who hold licences in England and Wales. Operators sometimes provide radio or other equipment in addition to a booking service, often in return for a fee or commission. Journeys are typically booked with an operator by phone, in person or via a taxi app. Bookings are then passed on to available drivers. Some operators are large concerns with hundreds of PHVs in different localities (these larger operators are often limited companies). Others are much smaller with a small number of PHVs in one area.
  - **Taxi driver licences:** All drivers of taxis or black cabs, who are able to pick people up at the street without a booking in the area for which they are licensed, are required to hold a taxi driver licence. There are around 55,000 taxi licences in operation across England and Wales. Taxi driver licences can be held by drivers who own their own vehicle, or they can be held by drivers who drive a cab owned by someone else (usually subject to some form of hire or profit-sharing arrangement with the owner of the vehicle). Holders of taxi licences are generally not prevented from carrying out private work, and a proportion of their work may arise from this.

A number of licensing authorities issue combined or dual taxi and PHV licences. The total number of driver licences issued (i.e. taxi, PHV and dual) in England and Wales is just under 368,000.

51. The licensed taxi and private hire industry is a vital element of public transport systems across the UK. It makes an important contribution to the UK's economy and achieves high professional standards. Although overall standards of tax compliance are good, the government believes the composition of the sector makes it vulnerable to evasion and hidden economy activity from a minority.
52. Tax-registration checks could help to strengthen current regulatory standards and support a level playing field for the majority compliant drivers and operators. This would align with the government's aim of open, safe and fair competition in the taxi and PHV market.
53. Checks for these licences align well with conditionality. The Department for Transport provides best practice guidance which outlines the checks that should be carried out as part of licensing processes. Taxi and PHV drivers are all subject to enhanced Disclosure and Barring Service (criminal background) checks. Other checks include those relating to medical fitness, driving proficiency, language proficiency, training and topographical knowledge. In addition the Immigration Act 2016 introduced right-to-work checks for taxi and PHV licensees to ensure they are in the UK lawfully and have permission to work. Checks for operators, although they also vary by authority, include a fit and proper person test, which includes checks for convictions, bankruptcy, company directorship, health and safety, accounts and insurance.

### Licences issued under the Housing Act 2004

54. There are two licensing regimes in this sector that the government believes may be suitable for conditionality:
  - **Houses in multiple occupation (HMO) licences:** A house in multiple occupancy (HMO) is a property rented out by at least three people who are not from one 'household' e.g. a family, but share facilities like the bathroom and kitchen. Licences are required for those who rent large HMOs. There are approximately 510,000 HMOs in England and approximately 64,000 of these are currently required to be licensed. The Department for Communities and Local Government (DCLG) recently consulted on changing the definition of mandatory licensing which would bring a further 160,000 HMOs in scope. Local authorities have the power to introduce additional licensing schemes, which would capture further HMOs. These licences must be renewed every 5 years.
  - Existing conditions for a licence in England are set by DCLG in accordance with Part 2 the Housing Act 2004. Local authorities can add other conditions and set fees for the licences. A number of conditions focus on the suitability of the house – for example, whether it is suitable for the number of occupants living there. The manager of the house must also be deemed 'fit and proper' – for example, this can relate to any criminal record, or breaches of landlord laws or codes of practice.

- **Selective licensing for private rented properties:** Part 3 of the Housing Act 2004 (the Act) sets out a scheme for licensing private rented properties in a local authority area in England and Wales. Under section 80 of the Act, a local authority can introduce selective licensing of privately rented homes in order to tackle problems in their areas (or any part or parts of them) caused by low housing demand or significant anti-social behaviour. In 2015, DCLG introduced further grounds for implementing selective licensing schemes: poor property conditions, high levels of migration, high levels of deprivation and high crime.

Where a selective licensing designation is made it applies to privately rented property in the area, and all properties in the private rented sector are required to be licensed by the local housing authority (subject to certain exemptions). Local authorities in England are required to obtain confirmation from the Secretary of State for any selective licensing scheme which would cover more than 20% of their geographical area or would affect more than 20% of privately rented homes in the local authority area.

55. The government values the private rented sector and wants to see a strong, healthy and vibrant market, which meets housing needs in a professional way. This includes ensuring that landlords are reporting and paying the tax they owe. To support this aim, HMRC is increasing its targeted compliance activity across the private rental sector through taskforce activity. It is also encouraging those who have been non-compliant to come forward through activities such as the Let Property Campaign<sup>6</sup>.
56. Applying conditionality to HMO licences could support existing HMRC compliance activity by helping and encouraging more landlords to ensure they are compliant with tax laws before renting out properties. Similarly, there may be potential for tax-registration checks to be incorporated into selective licensing schemes where appropriate and proportionate.

## Retail and services

57. Licences are administered by local authorities for businesses providing some retail and service activities which are understood to be vulnerable to hidden economy activity. The government would like to explore the potential to introduce additional checks on applicants' tax-registration status for the following licences:
58. **Street trading and market stall licences:** These licences are required by those wishing to trade in streets designated for such activity in a local area or by those running a market stall as a trader in England and Wales. Where a local authority has chosen to apply the provisions in the Local Government (miscellaneous Provisions) Act 1982, and in the case of London Boroughs, the London Local Authorities Act 1990, then the conditions specified in those provisions will be required before a trader can operate in a specified locality. However, several local authorities operate licensing under local acts that govern street trading.

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<sup>6</sup> The Let Property Campaign allows landlords to report previously undisclosed taxes on rental income to HMRC. Further information is available at: <https://letproperty.campaign.gov.uk>



59. Requirements for licences vary by local authority, but often include identifying information from the applicant and their business (if applicable) and information about where and what they wish to trade. Licensing authorities often require additional information, particularly if they are trading food, including: insurance information, national insurance numbers, proof of the applicant's right to work in the UK and proof of address.
60. **Massage and special treatment premises licences:** These are required for those running an establishment for massages or other special treatments including: manicures, chiropody, light treatments and electric treatments, among others. Separate licences are required for skin piercing treatments, except in Greater London (with the exception of the City of London). Provision for these licences is made in the Local Government (Miscellaneous Provisions) Act 1982 and London Local Authorities Act 1990 (and the London County Council (General Powers) Act 1920 for the City of London). Existing licence conditions vary, but are often focused on the suitability of the premises. Other identifying information is required about the applicant, including name, address, date of birth and company details.
61. The market trader sector has recently been subject to an HMRC taskforce, which found evidence of hidden economy activity. Introducing conditionality would help level the playing field by helping traders into the tax system. The government is also keen to understand the risks among massage and special treatment premises and how conditionality could benefit compliant businesses.

**Question 1: Please provide comments or evidence on the suitability of the government's proposals to apply conditionality to one or more of the licensing schemes outlined above. In your answer, please comment on:**

- **The extent to which checks on people's tax-registration status would address problems highlighted in the relevant sectors, or whether additional or alternative measures of compliance should be considered.**
- **How effective conditionality would be in improving standards of tax compliance in the sectors concerned.**
- **Any positive or negative effects that conditionality would have upon the compliant majority who trade in the relevant sectors; please provide details of any additional one-off or ongoing costs that might be incurred.**

### **Other sectors**

62. The above sections define specific licensing schemes that would be suitable for changes to introduce tax conditionality. However, the government is also interested in the potential to develop forms of conditionality through closer working with providers of other businesses approvals. This is particularly the case in sectors which make an important contribution to the UK economy, but are nonetheless affected by non-compliance.

63. This could include parts of the construction sector, such as the private market for home improvement and repairs, including building and maintenance of extensions, garages or external repairs. It could also include the market for internal building work, such as painting and decorating and specialist internal work including plumbing, electrical installation or gas maintenance and repair.
64. Those working in the construction sector are, in many cases, not subject to specific licensing schemes. However, they often seek membership of guilds or professional or trade bodies, and make use of other services in order to trade. The government would like to consider ways that professional bodies or service providers could promote tax registration amongst businesses operating in the construction sector. For example, this could include professional bodies taking steps to enquire whether members are correctly tax registered as a way of ensuring high professional standards.

**Question 2: Please provide comments or evidence on the suitability of applying forms of conditionality – or similar approaches to promote tax compliance – in the construction sector?**

- **Are there any other sectors that the government should consider for similar applications of conditionality?**

## Chapter 3: options for developing tax-registration checks

65. The previous chapter outlined sectors and licensing schemes which can be affected by hidden economy activity or tax non-compliance. It also discussed how tax registration, or similar standards of compliance, could be included within the conditions of accessing those licences.
66. This chapter suggests processes to ensure that people are properly registered for tax as a condition of accessing a licence. These include options to make tax-registration checks part of application and renewal processes for one or more of the licences described in chapter 2, and ways that licensing authorities can confirm that applicants are registered when they ought to be. It also includes options to allow HMRC to disclose to a licensing authority where an applicant has provided false information about their tax-registration status, or where it has certain other information about an applicant's tax status.

### Chapter overview

67. A broad approach is set out in this chapter, which reflects the following key principles. This does not represent a final policy design and the government welcomes views on ways this could be adapted:
  - **New applicants should be signposted towards tax obligations and HMRC services:** Checks applying to first-time applicants may not require confirmation that an applicant is registered. This is because first-time applicants may not have been working or trading in the relevant sector for long enough to have an obligation to register with HMRC. The aim, at this stage, would be to ensure that the applicant understands their taxable status and registers as soon as possible after they begin trading; knows where to go for support or advice; and understands that their identifying information may be submitted to HMRC.
  - **Checks should apply to those renewing licences:** Where licences are being renewed, HMRC's basic assumption would be that applicants have been working or trading in the sector for a reasonable period of time. It follows that they should be registered for tax in some form. Checks carried out at this stage would ask applicants to confirm and provide evidence of their tax-registration status.
  - **The process should depend upon applicants submitting required proof of registration:** The process for carrying out tax-registration checks should be led by self-declarations and evidence from the person applying for the licence. In practice, this would mean the applicant would need to tell the licensing authority whether and how they are registered for tax and provide simple confirmation of this as part of licensing processes.

- **No requirement upon licensing authorities to carry out more detailed tax checks:** The government would not expect licensing authorities to provide advice to applicants on their tax status or carry out any further checks beyond requesting declarations and/or simple evidence of registration. Applicants requiring particular support or advice could be directed towards appropriate HMRC services.
68. The principles set out above are intended to assist those trading in relevant sectors to register at the right time, whilst making it harder to trade for those determined to hide their income from HMRC. They are also intended to minimise burdens upon compliant customers and licensing authorities. The government would also issue guidance to those issuing licences to help to familiarise them with any new processes.

### Amending terms of licences to introduce conditionality

69. The basis of the proposal would be that licence holders need to be properly registered for tax as a condition of a licence. A new condition could be added to licences requiring licensees to be properly registered for tax. Other markers of compliance relevant to the problems posed by the hidden economy could also be added to licence conditions – for example, applying to an applicants' wider compliance record such as obligations to register employees in payroll through PAYE.
70. A different approach could be to incorporate markers of tax compliance into existing licence conditions. For example, where it is established that an applicant or licence holder has not complied with relevant tax obligations, the licensing authority could consider whether that person continues to meet a 'fit and proper person' test.

**Question 3: please describe how tax-registration or a similar standard of compliance could be introduced into existing terms and conditions of licences:**

- **Would it be best to introduce tax conditionality as a new, standalone condition of licences, or would it better included as a consideration with fit-and-proper person or similar checks?**
- **Would tax-registration be the best standard of compliance, or should a similar or broader standard of compliance be introduced – if so, what additional factors should be considered?**

### Checks on new applicants for licences

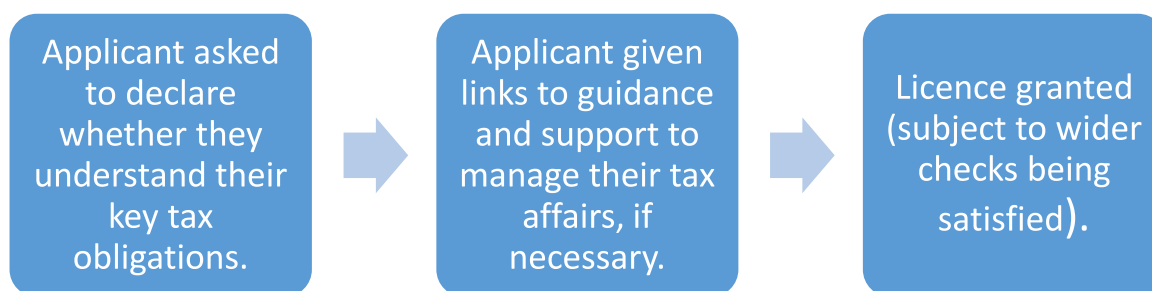
71. When applicants apply for licences for the first time, they may not yet need to be in the tax system or may not yet be trading at all. For example, HMRC requires self-employed customers to register for Self Assessment and Class 2 National Insurance as soon as they can after starting a business; and they must register no later than 5 October in the business's second tax year<sup>7</sup>. Those applying for licences for the first time may not have been trading for long enough to enable them to register for Self Assessment with HMRC. Likewise, HMRC recognises that people may apply for licences with the expectation that they will later use them to undertake work.

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<sup>7</sup> <https://www.gov.uk/log-in-file-self-assessment-tax-return/register-if-youre-self-employed>

72. In view of the above, licensing authorities could introduce questions into the procedure for processing a new licence, to ensure the applicant understands their tax obligations, understands that tax registration checks are a condition of the licence and is able to register as soon as possible after they begin trading. There are also opportunities to direct applicants towards further support or advice that is available from HMRC. However, it may not be necessary at this stage to confirm that an applicant is registered for tax. Checks on first-time applicants would aim to establish that:
- They know what their taxable position is or will be when trading in the licensed sector.
  - They understand that HMRC needs to hear from them as soon as possible after they begin trading, and they agree that they are (or will be) registered, if there is an existing obligation to be so, as a condition of holding their licence.
  - They understand that their details may be provided to HMRC which will hold a record that they are a licence holder with a potential tax liability.
73. Those who require further support could be directed towards the range of services and guidance that HMRC provides to new businesses.
74. The above objectives could be achieved by adding some standardised questions to licensing forms or processes, with links to appropriate further guidance being provided by HMRC in electronic or paper form. HMRC would provide guidance to licensing authorities on how to administer these changes and direct queries from applicants to HMRC.

**Figure 1: conditionality – process for new licence holders**



**Question 4: please comment on the proposed process for introducing tax checks into new licences.**

- **How effective would it be in promoting registration?**
- **How easily could the required changes be introduced into licensing processes?**
- **Please provide details of any additional one-off and ongoing costs that might be incurred.**

## Checks on applicants renewing licences

75. As described at the start of this chapter, the licences in chapter 2 need to be renewed periodically. Where a licence holder has applied for a licence at least once, and then taken a decision to renew that licence at a later date, that is a strong indication that the applicant is trading or earning income in the sector. So, where licences are being renewed, tax-registration checks should apply.
76. Applicants could be required to demonstrate their tax-registration status to a licensing authority before the licence renewal is processed. This could apply to the following routes through which individuals and businesses can declare and pay tax to HMRC:
- **Self Assessment:** those trading as self-employed<sup>8</sup> need to register for Self Assessment to pay Income Tax and make National Insurance contributions;
  - **PAYE:** Employees should be registered for tax by their employer. Income tax and national insurance from employment is normally collected by employers through the Pay as You Earn (PAYE) system<sup>9</sup>.
  - **Corporation Tax:** those operating as a private limited company must register for Corporation Tax within three months of starting to do business.

**Figure 2: demonstrating tax registration when renewing licences**



## How to prove registration at renewal

77. The government's view is that people applying for licence renewals should be asked to demonstrate their registration status as part of the process of renewing a licence.
78. This could be done by producing evidence proving that they have engaged with the tax system. The methods through which applicants could be asked to demonstrate their registration status could include:

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<sup>8</sup> Full details on who must send a Self Assessment tax return (other than those trading in self employment) are available at: <https://www.gov.uk/self-assessment-tax-returns/who-must-send-a-tax-return>

<sup>9</sup> Employers don't need to register for PAYE if none of their employees are paid £113 or more a week, get expenses and benefits, have another job or get a pension. However, they must keep payroll records.

- **Evidence generated through Personal Tax Accounts or online tax accounts for businesses:** HMRC's aim is to use digital tax accounts and other online services as its main way of interacting with customers. This makes it easier for them to see all their affairs in one place and harder for them to make mistakes. For example, customers who are self-employed can now manage details about their Self Assessment return online, and those who are employed can use the Pay as You Earn (PAYE) section of the personal tax account to manage their affairs. Customers can also print an HMRC letter (addressed to their home address) confirming their National Insurance number in writing. Information available on Personal and Business Tax Accounts could provide an easy way for customers to demonstrate their registration status to a licensing authority.
- **Other documentation:** alternative options could be considered for those who do not engage digitally with HMRC. For example, businesses or those in self-employment, could provide a copy of official documentation from HMRC confirming registration, such as a 'Notice to File' or letter confirming registration along with the applicant's Unique Tax Reference number (UTR). Those in employment, could provide a relevant letter from HMRC or their employer - for example, a PAYE Coding Notice or a payslip. Those in Corporation Tax could provide an appropriate statement of account.

79. To supplement this information and support any later checks by HMRC, licensing authorities may need powers to require certain additional information as part of the application process. This could include an applicant's National Insurance Number, a statement of the purposes for which the licence is needed (for example, whether self-employment or employment) and the applicant's employer's details, where relevant.
80. Where proof of registration is provided digitally, a secure method may be needed to enable an applicant to transfer the required information from their personal tax account to a licensing body. This would need to maintain appropriate safeguards on customers' privacy, and any relevant information provided by an applicant to a licensing authority would need to be kept secure and confidential.
81. The government's view is that this approach would provide a more robust system than one which relies solely on self-declarations by applicants (for example, an approach which would simply require applicants to state that they are registered on a licensing form).
82. This would impose greater responsibilities upon applicants to demonstrate that they are registered for tax, including the compliant majority. However, providing that a route to demonstrate registration is simple and easy for applicants to make use of, the government believes that this would not add disproportionate burdens to existing licensing requirements.
83. To help customers to understand any new requirements, HMRC would ensure that those requiring access to licences have guidance on the steps they need to go through to obtain proof of registration and have the opportunity to do so before they need to renew a licence.



84. It may also be proportionate to consider grace periods for existing licence holders who need to renew licences. This would ensure that licence holders have sufficient time to understand and comply with new requirements before they need to renew their licence. It would also ensure that any licence holders who are in the hidden economy have sufficient time to come forward and declare this to HMRC before they would risk facing any restrictions on their licence.

85. **The government's view is that applicants should be asked to produce suitable evidence showing that they are correctly registered for tax.**

**Question 5: please provide evidence on the likely effectiveness of these proposals in motivating more applicants to register with HMRC.**

**Question 6: please provide further evidence on the suitability of the options described for verifying the tax-registration status of people applying for licences.**

- **If evidence of an applicant's registration status is generated through personal or business tax accounts, how could applicants transfer this to a licensing authority in a secure and efficient way?**
- **If evidence is generated through use of documentation, how could applicants transfer this to a licensing authority in a secure and efficient way?**
- **Would an option be needed for those who do not engage digitally with HMRC?**

### **Cases where applicants have a permissible reason for not providing evidence of their tax-registration status**

86. Where licences are renewed, in general, applicants should be registered for tax and should be able to provide evidence of this. However, there may still be cases where an applicant has a reason for not being registered that should not prevent them from obtaining the licence. For example, this might be because the licence is being held but not actively used to generate any income.

87. In these cases, applicants may need to provide suitable confirmation that the applicant does not need to be registered with HMRC. This may include a route for an applicant to notify HMRC that they are a licence holder alongside confirmation of why they are not registered (and to demonstrate to a licensing authority that they have done so). Alternatively, it may include a route for a licensing authority to provide these details to HMRC. HMRC would provide appropriate support and guidance to licensing authorities to ensure that any process is simple to administer.

**Question 7: How frequently would applicants have a permissible reason for not being registered in the sectors outlined in chapter 2?**

- **If applicants have a permissible reason for not being registered, how should they be able to demonstrate this in order to obtain the licence?**
- **How can HMRC ensure that any process is simple for applicants and licensing authorities to administer?**



88. Employees should normally pay tax and national insurance by being enrolled in PAYE by their employer. Employees can, therefore, occasionally find themselves in the hidden economy due to a failure which is mainly on the part of their employer. We would also like to explore what licensing authorities should do when applicants state they are employed but cannot provide any evidence that they are appropriately registered for tax. For example, should licences simply be withheld in these cases, or should an alternative course of action be considered?

### **Withholding access to licences**

89. Where an applicant for a licence renewal declares that they are registered for tax, but doesn't provide the required evidence to support this declaration, then licensing authorities should refuse to process the licence.
90. The government believes that this would be the simplest approach to implementation. It would provide a robust process, ensuring that anyone who declares they are registered for tax has done so. It would also minimise the need for checks to be carried out by HMRC after licences have been granted.
91. It would also impose minimal impacts upon customers, since any applicant who is not able to satisfy the licensing body's requirements can easily correct this by taking simple steps to register for tax with HMRC, or by demonstrating a permissible reason for not being registered.

**Question 8: Should licensing authorities refuse to process licences where no evidence is provided to verify an applicant's declaration that they are registered for tax?**

### **Data to verify information with HMRC**

92. The aim of the above proposals would be to ensure that tax-registration checks are completed before licences are granted. However, there may also be a need for HMRC to check details provided to licensing authorities after the event – for example, to assess overall levels of compliance in the licensed population and, potentially, in a small number of cases to identify where applicants have provided false information to a licensing authority. HMRC already has powers to collect relevant data from licensing bodies. This includes data that are transmitted in bulk form (through a process of obtaining large amounts of customer records from a single data holder)<sup>10</sup>. It also includes powers to obtain data from a third party to check the tax position of a customer<sup>11</sup>.
93. HMRC already carries out compliance activity in the sectors described in chapter 2, and data is routinely collected from licensing authorities for matching against HMRC systems. This process would enable HMRC to carry out checks on those who have applied for licences, and it would also help to identify any cases where applicants may have provided false information.

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<sup>10</sup> Finance Act 2011, Schedule 23, Part 2, Section 17: The gathering of data in bulk about taxpayers' income and assets is vital to the successful discharge of HMRC's responsibilities as the UK tax authority. HMRC routinely compares data provided by customers with third party data linked to their financial activity. This enables HMRC to check customers' tax status and the accuracy of their returns, while minimising the administrative burden of providing additional information where needed.

<sup>11</sup> Finance Act 2008: Schedule 36 contains a power to require information about a person from a third party where the identity of the person is known.

94. It is not currently the government's intention to expand these powers for the purposes of conditionality, for example, to require more frequent or regular submissions of bulk data. However, it may be necessary to amend existing powers to ensure that they are sufficient to allow HMRC to obtain all relevant data submitted by an applicant in connection with a tax-registration check. It may also be necessary to require licensing authorities to report certain issues (such as potential cases of employer non-compliance) to HMRC or to allow HMRC to inspect some details held about licence holders on request.

**Question 9: Please comment on data powers that might be needed to support the tax-registration checks described in this chapter.**

### **HMRC powers to disclose relevant information back to licensing authorities**

95. To support the process for administering tax-registration checks, new powers may be needed to allow HMRC to disclose certain information to licensing authorities about applicants or licence-holders. For example, information could be provided to a licensing authority where HMRC thinks an applicant may have deliberately provided it with false information.
96. In addition, HMRC may need new powers to tell a licensing authority where it finds that a licence holder is operating in the hidden economy or where it finds that a person is operating in a relevant sector without a licence.
97. Finally, there may be other circumstances in which HMRC should have powers to disclose information to licensing authorities. For example, to support regulatory objectives and uphold the principles involved with tax conditionality, some licensing authorities may wish to be informed where an applicant or licence holder is engaging in related or serious tax non-compliance. For example, this could include information relevant to an applicants' wider compliance record such as their obligations to register employees in payroll through PAYE; it could also include where an applicant or a licence holder is engaging in potentially fraudulent behaviour.

**Question 10: please comment on the circumstances in which HMRC could disclose relevant information back to a licensing authority.**

- **What action would licensing authorities wish to take in these cases?**
- **Are there circumstances in which licensing authorities would wish to be informed about a licence holder engaging in tax non-compliance, beyond a failure to register for tax? Please describe what these would be.**

## Chapter 4: minimising burdens and impacts

98. This chapter seeks evidence on the extent to which the government's proposals would address risks posed by the hidden economy in the identified sectors, whilst minimising administrative or other burdens for customers and licensing authorities.

### Minimising administrative burdens upon customers

99. The suggested process for carrying out tax-registration checks is permissive for first-time applicants. Those requiring a licence to trade will face no hard barriers at all until they come to renew a licence. In practice, this means that new businesses would be given a reasonable period of time to register for tax and get their affairs in order before they need to demonstrate any evidence of their registration status to a licensing authority.
100. First-time applicants would instead be asked to confirm that they understand what their taxable position is or will be and, if required, will be given access to guidance, support and services provided by HMRC.
101. By the time that customers require a licence to be renewed, they will have had sufficient time to register and familiarise themselves with their key tax obligations. As a further safeguard, the government could also consider a grace period for those renewing licences. As described in the above chapter, this would ensure that existing licence holders have sufficient time to understand and comply with new requirements. It would also ensure that any licence holders who are in the hidden economy have sufficient time to come forward and declare this to HMRC before they face any restrictions on their licence.
102. The government's view is that providing this evidence as part of a licence renewal process would be a proportionate and achievable test to meet for most customers. However, the government also recognises that some customers may face challenges in supplying the required evidence. We are keen to hear views on how the needs of these customer groups can be accommodated through any proposals to introduce conditionality.

**Question 11: What one-off and ongoing costs and administrative burdens do you think will arise as a result of this proposal? Please provide evidence on the extent to which these proposals would minimise additional administrative burdens for licensing bodies?**

**Question 12: Are there any extra steps or safeguards that should be considered, particularly for customer groups who may find it difficult to provide proof that they are registered for tax?**

### Minimising impacts upon customers' privacy

103. A further aim of these proposals is to strike a suitable balance between the privacy of customers and the risks posed to the tax system by the hidden economy. The importance of customer privacy would be a key consideration in the development of any process to verify tax registration status.

104. The proposals set out in the above chapter may, in some cases, give licensing authorities the power to request personal documentation relevant to a person's tax registration status as part of a licence renewal process.
105. Public sector licensing authorities have protocols to keep sensitive customer information secure, but the government would consider it very important that stringent standards are in place to safeguard any tax-related information supplied by customers.

**Question 13: Do you agree that the proposals set out in chapter 3 strike an appropriate balance between the need to safeguard customer privacy and to address risks posed by the hidden economy? Are there any different or additional safeguards that the government should consider?**

### **Minimising burdens for licensing authorities**

106. The government also intends that any process to introduce conditionality should minimise burdens upon licensing authorities. It also wants to ensure that any changes do not alter the regulatory effectiveness of existing regimes and processes – for example, by ensuring that they support existing and ongoing compliance with licensing rules. The changes proposed in chapter 3 would be likely to require some additions to licensing systems or forms, introducing new fields to require additional information about an applicant's tax-registration status. The government is keen to work with licensing authorities to identify how this could be achieved with minimal changes to existing processes. HMRC will also take account of the new burdens doctrine<sup>12</sup> in developing these proposals.
107. Staff administering checks outlined in chapter 3 would also need to familiarise themselves with any new process to deliver conditionality. To assist with this, HMRC intends to issue guidance to licensing authorities, offering assistance and support in familiarisation.
108. The process described in Chapter 3 could be achieved by asking sets of proscribed questions and carrying out checks based on clearly defined criteria. It would not be HMRC's intention that licensing bodies will need to provide guidance on individual queries or make assessments of people's tax status. HMRC provides a range of services to customers intended to support them in managing their tax affairs, and the process described in chapter 3 would not be intended to duplicate this.
109. Nonetheless, in developing conditionality, HMRC will work closely with licensing authorities to identify an approach that works in their interests. The government recognises that a one-size-fits-all approach may not work for different licensing schemes identified in this consultation.

**Question 14: please provide evidence on the extent to which these proposals would minimise administrative burdens for licensing authorities. What factors should be considered to ensure that changes do not alter the regulatory effectiveness of existing regimes and processes? Are there any extra steps or safeguards that should be considered?**

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<sup>12</sup> The new burdens doctrine is part of a suite of measures to ensure Council Tax payers do not face excessive increases. Further information is available at: <https://www.gov.uk/government/publications/new-burdens-doctrine-guidance-for-government-departments>

## Appeals

110. The proposals in chapter 3 would require licensing authorities to refuse to process licences in cases where an applicant is not registered for tax. The chapter provides suggests the circumstances in which this action may be required.
111. In addition, where HMRC identifies that information provided by a licence holder is false, the licensing authority could take action against that person (including after a licence has been granted), since it is, in some cases, an offence to provide false information to a licensing authority.
112. In each of these cases, applicants may have a right to appeal the licensing authority's decision.

**Question 15: Please describe appeal mechanisms that would, or should, apply in relation to the proposals detailed in chapter 3. Please describe any additional one-off and on-going costs or any administrative burdens associated with these proposals, and how these could be kept to a minimum.**

## Chapter 5: next steps and further options

113. HMRC will evaluate delivery options in light of responses to this consultation, and will issue a response.
114. The government plans to bring forward draft legislation to implement conditionality, and this will be informed by the outcome of this consultation. The government may consider changes to a smaller number of the licences described in chapter 2 initially, with the possibility of broadening this out further at a later date.
115. As described in chapter 2, HMRC also consulted last year on broader proposals to apply conditionality to wider services, such as services offered to businesses by private sector providers. The government would like to explore the potential for the proposals outlined in this consultation to act as a first step in a longer-term roadmap for developing conditionality. This could, in time, see simple tax checks integrated into more of the essential services or platforms that businesses use to trade.
116. The government recognises that the design of these proposals, and their impacts upon customers and third parties would need to be carefully assessed. They would also be developed in line with the government's ongoing proposals to transform tax and payments for HMRC customers.
117. Longer-term options to develop conditionality could drive down hidden economy activity on a larger scale, and support a level playing field for businesses across the UK.
118. However, as the government acknowledged in response to its earlier consultation, these longer term proposals would also carry a larger range of challenges and dependencies which would require careful consideration. The government is keen to continue dialogue with providers of relevant services and their representative bodies to consider further the role that they can play in promoting tax compliance amongst those who use their services.



# Chapter 6: Assessment of Impacts

## Summary of Impacts

Exchequer impact (£m)	2016-17	2017-18	2018-19	2019-20	2020-2021
	Final costing will be based on the outcome of this consultation and any subsequent delivery measures. This will be subject to scrutiny by the Office for Budget Responsibility.				
<b>Economic impact</b>	This proposal would not be expected to have a significant economic impact.				
<b>Impact on individuals, households and families</b>	This proposal would not be expected to have an impact on individuals, households, or families. There is no impact on family formation, stability or breakdown.				
<b>Equalities impacts</b>	HMRC has considered the equalities impact and it is not expected that this measure would have a negative impact on any equality group.				
<b>Impact on businesses and Civil Society Organisations</b>	<p>Conditionality would be likely to impose new requirements upon businesses to demonstrate that they are registered for tax before accessing licences. This would include the majority of businesses who are compliant with their tax obligations. The exact way that customers would fulfil these obligations will depend on the final design of any policy measures. However, the consultation outlines processes that would be intended to impose only minimal obligations upon compliant customers.</p> <p>This reflects feedback in response to HMRC's first consultation on conditionality; most responses said that any approach to conditionality must minimise burdens upon compliant businesses and providers of licences and business services. We will progress work to identify, and consider ways to minimise, burdens throughout this consultation.</p>				
<b>Impact on HMRC or other public sector delivery organisations</b>	<p>If the government decides to progress conditionality proposals following this consultation, impacts upon HMRC or other public sector organisations will be determined at this stage, and will depend upon the final policy design. Costs to HMRC could include IT costs, such as those associated with any changes to HMRC digital systems to facilitate tax-registration checks. It could also include staff costs associated with dealing with reports submitted by licensing bodies and/or supporting licensing bodies in administering checks on applicants' tax-registration status.</p> <p>Conditionality may have an operational impact upon licensing bodies (either central or local government) if new tax registration</p>				

	<p>conditions are introduced for licences that they administer. In particular, this would include costs to licensing bodies in familiarising licensing teams with new proposals and costs associated with administering checks on applicants' tax-registration status. It would also involve any costs associated with amending licensing forms and/or licensing systems to include new questions on applicants' tax registration status.</p> <p>If conditionality proposals would give licensing bodies new powers or obligations to withhold access to licensing, then there may also be costs associated with administering and responding to appeals against relevant licensing decisions.</p>
<b>Other impacts</b>	<p>Other impacts have been considered and none have been identified. HMRC seeks views from respondents as part of this consultation on any other potential impacts of this proposal.</p>



# Chapter 7: Summary of Consultation Questions

**Question 1:** Please provide comments or evidence on the suitability of the government's proposals to apply conditionality to one or more of the licensing schemes outlined above. In your answer, please comment on:

- The extent to which checks on people's tax-registration status would address problems highlighted in the relevant sectors, or whether additional or alternative measures of compliance should be considered.
- How effective conditionality would be in improving standards of tax compliance in the sectors concerned.
- Any positive or negative effects that conditionality would have upon the compliant majority who trade in the relevant sectors; please provide details of any additional one-off or ongoing costs that might be incurred.

**Question 2:** Please provide comments or evidence on the suitability of applying forms of conditionality – or similar approaches to promote tax compliance – in the construction sector?

- Are there any other sectors that the government should consider for similar applications of conditionality?

**Question 3:** please describe how tax-registration or a similar standard of compliance could be introduced into existing terms and conditions of licences:

- Would it be best to introduce tax conditionality as a new, standalone condition of licences, or would it better included as a consideration with fit-and-proper person or similar checks?
- Would tax-registration be the best standard of compliance, or should a similar or broader standard of compliance be introduced – if so, what additional factors should be considered?

**Question 4:** please comment on the proposed process for introducing tax checks into new licences.

- How effective would it be in promoting registration?
- How easily could the required changes be introduced into licensing processes?
- Please provide details of any additional one-off and ongoing costs that might be incurred.

**Question 5:** please provide evidence on the likely effectiveness of these proposals in motivating more applicants to register with HMRC.

**Question 6: please provide further evidence on the suitability of the options described for verifying the tax-registration status of people applying for licences.**

- If evidence of an applicant's registration status is generated through personal or business tax accounts, how could applicants transfer this to a licensing authority in a secure and efficient way?
- If evidence is generated through use of documentation, how could applicants transfer this to a licensing authority in a secure and efficient way?
- Would an option be needed for those who do not engage digitally with HMRC?

**Question 7: How frequently would applicants have a permissible reason for not being registered in the sectors outlined in chapter 2?**

- If applicants have a permissible reason for not being registered, how should they be able to demonstrate this in order to obtain the licence?
- How can HMRC ensure that any process is simple for applicants and licensing authorities to administer?

**Question 8: Should licensing authorities refuse to process licences where no evidence is provided to verify an applicant's declaration that they are registered for tax?**

**Question 9: Please comment on data powers that might be needed to support the tax-registration checks described in this chapter.**

**Question 10: please comment on the circumstances in which HMRC could disclose relevant information back to a licensing authority.**

- What action would licensing authorities wish to take in these cases?
- Are there circumstances in which licensing authorities would wish to be informed about a licence holder engaging in tax non-compliance, beyond a failure to register for tax? Please describe what these would be.

**Question 11: What one-off and ongoing costs and administrative burdens do you think will arise as a result of this proposal? Please provide evidence on the extent to which these proposals would minimise additional administrative burdens for licensing bodies?**

**Question 12: Are there any extra steps or safeguards that should be considered, particularly for customer groups who may find it difficult to provide proof that they are registered for tax?**

**Question 13: Do you agree that the proposals set out in chapter 3 strike an appropriate balance between the need to safeguard customer privacy and to address risks posed by the hidden economy? Are there any different or additional safeguards that the government should consider?**

**Question 14: please provide evidence on the extent to which these proposals would minimise administrative burdens for licensing authorities. Are there any extra steps or safeguards that should be considered?**

**Question 15: Please describe appeal mechanisms that would, or should, apply in relation to the proposals detailed in chapter 3. Please describe any additional one-off and on-going costs or any administrative burdens associated with these proposals, and how these could be kept to a minimum.**

## Chapter 8: The Consultation Process

This consultation is being conducted in line with the Tax Consultation Framework. There are 5 stages to tax policy development:

Stage 1 Setting out objectives and identifying options.

Stage 2 Determining the best option and developing a framework for implementation including detailed policy design.

Stage 3 Drafting legislation to effect the proposed change.

Stage 4 Implementing and monitoring the change.

Stage 5 Reviewing and evaluating the change.

This consultation is taking place during stage 2 of the process. The purpose of the consultation is to seek views on the best options for delivery and to develop a framework for implementation.

### How to respond

Please provide responses to this consultation no later than 2 March 2018.

A summary of the questions in this consultation is included at chapter 7.

Please send e-mail responses to:  
[isbc.compliancepolicy@hmrc.gsi.gov.uk](mailto:isbc.compliancepolicy@hmrc.gsi.gov.uk)

Please send written responses to:  
Georgina Treacy, HMRC  
Room G/72  
100 Parliament Street  
London  
SW1A 2BQ

Telephone enquiries 03000 599937 (from a text phone prefix this number with 18001)

**Please do not send consultation responses to the Consultation Coordinator.**

Paper copies of this document or copies in Welsh and alternative formats (large print, audio and Braille) may be obtained free of charge from the above address. This document can also be accessed from [HMRC's GOV.UK pages](#). All responses will be acknowledged, but it will not be possible to give substantive replies to individual representations.

When responding please say if you are a business, individual or representative body. In the case of representative bodies please provide information on the number and nature of people you represent.

## Confidentiality

Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes. These are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004.

If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals with, amongst other things, obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on HM Revenue and Customs (HMRC).

HMRC will process your personal data in accordance with the DPA and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties.

## Consultation Principles

This consultation is being run in accordance with the Government's Consultation Principles.

The Consultation Principles are available on the Cabinet Office website: <http://www.cabinetoffice.gov.uk/resource-library/consultation-principles-guidance>

If you have any comments or complaints about the consultation process please contact:

John Pay, Consultation Coordinator, Budget Team, HM Revenue & Customs, 100 Parliament Street, London, SW1A 2BQ.

Email: [hmrc-consultation.co-ordinator@hmrc.gsi.gov.uk](mailto:hmrc-consultation.co-ordinator@hmrc.gsi.gov.uk)

**Please do not send responses to the consultation to this address.**