ICAEW
REPRESENTATION 65/18

CASH AND DIGITAL PAYMENTS IN THE NEW ECONOMY: CALL FOR EVIDENCE

Issued 5 June 2018

ICAEW welcomes the opportunity to respond to the consultation Cash and digital payments in the new economy: call for evidence published by HM Treasury on 13 March 2018.

This response of 5 June 2018 has been prepared by the ICAEW Tax Faculty. Internationally recognised as a source of expertise, the Tax Faculty is a leading authority on taxation and is the voice of tax for ICAEW. It is responsible for making all submissions to the tax authorities on behalf of ICAEW, drawing upon the knowledge and experience of ICAEW's membership. The Tax Faculty's work is directly supported by over 130 active members, many of them well-known names in the tax world, who work across the complete spectrum of tax, both in practice and in business. ICAEW Tax Faculty benchmarks the tax system by reference to its Ten Tenets for a Better Tax System, summarised in Appendix 1.

ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of strong economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports and regulates more than 150,000 chartered accountant members in over 160 countries. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical and ethical standards.

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MAJOR POINTS

1. In line with the general trend to digitalise business, ICAEW expects the trend towards digital payment methods to continue to increase over the next 10 years.
2. Much of this trend is being driven by speed and convenience, but we also see businesses and service providers, including government departments which no longer accept cash forcing consumers to use digital payment methods whether they want to or not. HMRC is one such department.
3. A particular driver for business is Making Tax Digital. From April 2019, all VAT registered businesses with turnover above £85,000 will be required to digitalise their accounting systems so that there is a seamless flow of electronic information from recording each transaction through to its inclusion on the quarterly VAT return. As accounting systems are increasingly digitalised, it seems inevitable that payment methods will follow suit and that consumers will be encouraged to do likewise.
4. ICAEW's view is that any move to digital should be at the pace and choice of those businesses and individuals affected and not mandated. When a business case for change is proven, businesses will follow of their own accord.

GENERAL COMMENTS

5. One of the drivers behind this call for evidence is 'to understand the use of cash to evade tax and in money laundering', but it focusses on cash and digital payments alone. It is important to note that many businesses use other assets as a means of transferring value in business. For example, property, either alone or within a corporate shell, based either in the UK or overseas, can be used to repay debts or as part of an exchange in a transaction. Charities in particular will frequently receive value in this way.
6. Furthermore, barter has long been accepted in business: for example a small item of jewellery could be given in part exchange for a more valuable item, or services may be exchanged by small traders with different skills. These are all perfectly legitimate ways to pay for goods and services and should be included in any review.
7. There are also local currencies being used in some areas of the UK, all designed to support local businesses; for example the 'Brixton pound' in south east London. The B£ is one of several local currencies that currently run in the UK, and was the first in an urban setting. Others we have heard about include Bristol, Cardiff, Cornwall, Exeter, Kingston, Lewes, Liverpool, Plymouth, Stroud, Totnes, and Worcester. They work alongside sterling and can be cash or digital.
8. Any government intervention in the cash/digital payments behavioural balance should be considered in the light of possible unintended consequences to business models of this type which are designed to encourage local business communities.
9. Recently, the UK has seen a growth in the use of crypto currencies. Interference with the current payments systems might provide more incentives for criminals to look at these instead. Preventing people from using cash to pay could drive them to use other methods which could be even more difficult to trace.
10. Continuing to educate businesses and consumers about cyber security must be an important part of any work to encourage more use of digital payments.

RESPONSES TO SPECIFIC QUESTIONS

11. Please note that we have not been able to survey our membership and the comments in response to the following questions are based on anecdotal evidence.

CHAPTER 2: SUPPORTING DIGITAL PAYMENTS

Question 1 How do you expect digital payment methods, and the adoption of these by merchants and consumers, to change over the next 10 years? What are the drivers of this?

12. We expect the trend towards digital payment methods to continue to increase over the next 10 years.
13. For many consumers this is a matter of convenience. As goods and services become more expensive over time, it becomes impractical to pay using cash. Also, many people feel uncomfortable carrying large quantities of cash and see debit and credit cards as a safer alternative.
14. The younger generation is more digitally aware and more comfortable using digital payments methods. They will assume a larger proportion of the population during the next 10 years, so a gradual move to digital will continue naturally as they get older.
15. Many service providers, including government departments, no longer accept cash, so consumers are driven to use digital payment methods whether they want to or not. HMRC is one such department. This forces an increased rate of change.
16. A particular driver for business is Making Tax Digital. From April 2019, all VAT registered businesses with turnover above £85,000 will be required to digitalise their accounting systems to ensure a seamless flow of electronic information from recording each transaction through to its inclusion on the quarterly VAT return. As accounting systems are increasingly digitalised, it seems inevitable that payment methods will become digitalised and that consumers will be encouraged to follow suit.
17. The Government's intention is that digital accounting records will be compulsory for income tax and corporation tax shortly afterwards, although no dates have yet been legislated for taxes other than VAT.
18. We note the recent successful outcome of the VISA cashless challenge. In 2017, Visa invited small businesses across the US to suggest how going cashless could benefit their business. 50 businesses in the catering industry were selected to receive $10,000 each for envisioning less-cash transactions. We understand that Visa has indicated that it might run similar competitions in other countries, including the UK. It seems likely that a larger percentage of transactions will be paid for in cash by customers of smaller high street businesses, making this an important potential market for non cash services like Visa to target, and hence its investment worthwhile.

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

19. There are several drivers which could increase the proportion of payments made digitally.
20. From a consumer's perspective, cost and convenience are important. It is no longer permissible for businesses to charge a premium to customers paying by credit or debit card. The consumer may even benefit from insurance or a guarantee from the card issuer to cover the item purchased. Many consumers prefer the convenience of a tap and go device to pay for their small value purchases, while others prefer cash. Other than forcing customers to choose one method rather than another, the only government intervention which might accelerate the rate of change would seem to be financial.

21. We do not have exact figures for the cost to a vendor for accepting payment by card rather than cash, but different banks will pass on a charge to retailers for these services and usually the cost for a credit card transaction is higher than a debit card.
22. As it becomes increasingly easy to transact online, the limiting factors become the cost of hardware and availability of fast universal broadband. For customers wanting to buy online, government support to provide universal access, targeted to particular sectors, regions or demographics would help to alleviate the effects of these.
23. Hubs in public places like libraries or using spare facilities in schools out of hours, together with support for those who need help to use the internet, could boost shopping online and so digital payments still further. Taking this a step further, places shoppers use frequently, for example large supermarkets, could have hubs where customers could be shown how to shop online, so that could be an easier option for some in future.

Question 3 Are there international examples of countries supporting the adoption of digital payments that the government should look to?

24. Many studies show rankings for countries where digital payment methods are common. Most agree that Canada and Sweden lead the world, with the UK not far behind. These studies seem to rank countries by reference to ownership of credit and debit cards rather than necessarily looking at how cash is used, presumably because this is more difficult to assess.
25. Enthusiasm for using credit cards is not the only driver for a government to encourage adoption of digital payments. Countries which suffer from a thriving informal economy and high levels of corruption have also embraced digital payment methods. For example, M-Pesa, a digital payment method reliant on a digital wallet accessed by mobile phone, is in common use in Kenya's market places, providing more security for vendors and consumers, and more traceable cash for the tax system.
26. In some countries the action of private sector companies such as Visa, are accelerating the pace of the move from cash to digital, see the Visa challenge, para 8.

Question 4 Why does the cost of processing payments differ between cash and digital payments? How is it changing? And do you expect the change to continue?

27. A card issuer usually charges a flat fee for the business to own a card reader and then also a transaction fee. As the seller cannot pass on this additional processing cost to the customer, they rest with the business.
28. We do not have specific information about how this will change, but it seems probable that increasing competition from challenger banks and other new entrants to the market will drive costs down.

CHAPTER 3: THE FUTURE ROLE OF CASH

QUESTION 5 WHO USES CASH AS THEIR MAIN FORM OF PAYMENT AND WHY?

29. Historically, cash has been used more for low value transactions. Increasingly people use pre-loaded cards to make these where possible, although we do not have any statistics about the pace of change.

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

30. People who are paid in cash seem more likely to pay using cash. This is more common for those who work in agriculture, tourism and hospitality where rates of pay are lower and the where amounts involved are small.

31. Household services provided by gardeners, cleaners, window cleaners are often paid for in cash although there is anecdotal evidence that this is changing. For many, cash is still a cheap and simple way for these workers to collect their earnings as they go. The alternative is to require a householder to pay using a card which necessitates the worker to carry an electronic banking device. This costs money which, at the margin, the micro business may not be willing to afford.

32. Older people may also be more likely to use cash if they are unsure or distrustful of digital methods.

Question 7 How does the level of cash that you handled or used this year compare to what you handled or used five years ago? What are the drivers for that change (for example, change in customer preferences, currency modernisation programmes such as new polymer banknotes and £1 coin)?

Question 8 How do you think the level of cash you will handle or use in five years will compare to what you handled or used this year? What are the drivers for that change? And how will different sectors be impacted by this change?

Question 9 What impact has the change in demand had on industries that process cash?

Question 10 Does the current denominational mix (eight coins and four banknotes) meet your current and future needs? If not, how should it change?

Question 11 Have you made, or do you intend to make, any changes to the way that you accept cash due to the change in demand (for example, implemented rounding, restricted the use of certain denominations, or changed machines so that they no longer accept cash)?

Question 12 What measures can be taken to ensure that coins of denominations that are needed remain in active circulation and do not fall dormant, either with the public or at cash processors?

33. We have no comments on questions 7 to 12.

Question 13 In what circumstances is a £50 note used in routine transactions and why (rather than multiple lower denomination notes)?

34. Cashpoint machines are under particular stress to meet consumers' cash requirements at weekends. We have had anecdotal evidence of banks dispensing £50 notes at cash machines on Sunday evenings on several occasions, which presumably means these notes have to be used to pay for low value items in local shops.

Question 14 How were counterfeit £1 coins able to enter circulation and circulate freely?

Question 15 When and how are / should coins be checked in the cash cycle, both now and in the future?

35. We have no comments on questions 14 and 15.

Question 16 Are there other international examples of countries managing decline in demand for cash that the government should look to? Should the UK follow a similar pathway as other countries in modernising the currency?

36. We have no evidence to support a decline in the demand for cash, but note that the reduction in demand may be driven by commercial initiatives.

37. We have noted above the successful outcome of the VISA cashless challenge in the United States. In 2017, Visa put a call out to small businesses across the US to tell the company how going cashless could benefit their business. 50 winners were selected to receive $10,000 each for envisioning cashless solutions.

CHAPTER 4: UNDERSTANDING THE ROLE OF CASH IN FACILITATING TAX EVASION AND MONEY LAUNDERING

Question 17 In which sectors or circumstances is cash usage likely to increase tax evasion, hidden economy, and money laundering risks?

38. We have no evidence to indicate which businesses might facilitate tax evasion, the hidden economy, or money laundering. Clearly businesses which use larger amounts of cash will find it easier to engage in illegal activity should they wish to do so. Hospitality, building, tourism and market traders commonly use more cash than other businesses but we do not have any evidence to suggest that they might be higher risk than in other businesses.

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

39. It would be useful to keep encouraging banks and financial institutions to continue to develop ways of tagging payments with data about what those payments represent. When Real Time Information (RTI) for payroll was first discussed, there was a common misconception that salary payments made as faster payments from a business bank account would be able to contain the same level of detail about their nature, as those made by BACS. As far as we are aware, they still do not but, in encouraging developments, it is important that the cost to business for processing transactions does not increase.
40. Members have described how businesses can occasionally make a digital payment to the wrong account because of a simple transposition error when entering the bank account number. Even though the correct name of the recipient is shown, this is irrelevant as the payment follows the account number. If the payee won’t voluntarily repay the funds, the payer has no way of retrieving the funds without going to court. Providing a simpler and less costly remedy might encourage more people and businesses to use online banking.

Question 19 The government knows that businesses and individuals still use large cash transactions, and wants to understand in which business practices or sectors are large cash transactions considered necessary or more acceptable? What are the barriers to using digital payments?

41. We have no information to answer this question.

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

42. HMRC already uses an extensive system of compliance activity to support its work in this area supported by its Connect system. It would seem sensible to invest more resources in this established system where we understand the tax collected exceeds the costs of doing so, rather than looking to set up a new system.

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

Question 22 Are there other international examples of countries who have tackled tax evasion and money laundering associated with cash that the UK should look to?

Question 23 Should the UK follow a similar pathway to other countries and implement a cash transaction limit? If so, what would be an appropriate threshold?

43. We have no information to answer questions 21 to 23.

APPENDIX 1

ICAEW TAX FACULTY'S TEN TENETS FOR A BETTER TAX SYSTEM

The tax system should be:

44. Statutory: tax legislation should be enacted by statute and subject to proper democratic scrutiny by Parliament.
45. Certain: in virtually all circumstances the application of the tax rules should be certain. It should not normally be necessary for anyone to resort to the courts in order to resolve how the rules operate in relation to his or her tax affairs.
46. Simple: the tax rules should aim to be simple, understandable and clear in their objectives.
47. Easy to collect and to calculate: a person's tax liability should be easy to calculate and straightforward and cheap to collect.
48. Properly targeted: when anti-avoidance legislation is passed, due regard should be had to maintaining the simplicity and certainty of the tax system by targeting it to close specific loopholes.
49. Constant: Changes to the underlying rules should be kept to a minimum. There should be a justifiable economic and/or social basis for any change to the tax rules and this justification should be made public and the underlying policy made clear.
50. Subject to proper consultation: other than in exceptional circumstances, the Government should allow adequate time for both the drafting of tax legislation and full consultation on it.
51. Regularly reviewed: the tax rules should be subject to a regular public review to determine their continuing relevance and whether their original justification has been realised. If a tax rule is no longer relevant, then it should be repealed.
52. Fair and reasonable: the revenue authorities have a duty to exercise their powers reasonably. There should be a right of appeal to an independent tribunal against all their decisions.
53. Competitive: tax rules and rates should be framed so as to encourage investment, capital and trade in and with the UK.

These are explained in more detail in our discussion document published in October 1999 as TAXGUIDE 4/99 (see https://goo.gl/x6UjJ5).