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Policy paper

HMRC issue briefing: hidden economy conditionality

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This publication is available at <https://www.gov.uk/government/publications/hmrc-issue-briefing-hidden-economy-conditional/hmrc-issue-briefing-hidden-economy-conditional>

HMRC is introducing a simple tax check that will take place when people renew their licences to drive taxis, drive and operate private hire vehicles, or deal in scrap metal.

This will be a small addition to the requirements already put in place by licensing authorities, for example checks to ensure that licensees are fit and proper persons. This will be a straightforward online process, taking a few minutes, typically once every 3 years. The tax check will simply confirm that applicants are registered for tax if they need to be.

It will be introduced for licensees in England and Wales from April 2022.

The process will be slightly different depending on whether someone is renewing their licence or applying for the first time.

If they are renewing their licence, they'll need a tax check reference number which they can get by submitting their details into the online service. The licensing body will use this to confirm with HMRC that the applicant has completed a tax check. The licensing body will then reach a decision on the licence in the usual way.

First-time applicants will not have to complete the check. Instead, licensing authorities will make sure they have access to HMRC guidance, showing them what they need to do in order to be properly registered for tax in the future.

As decisions on applications for these licences are conditional on the tax check (in addition to the licensing body's requirements) this is known as 'tax conditionality'.

A consultative approach

We have consulted extensively on this change. In 2016, [we took views on the principle of conditionality \(https://www.gov.uk/government/consultations/tackling-the-hidden-economy-conditionality\)](https://www.gov.uk/government/consultations/tackling-the-hidden-economy-conditionality) and then in 2017 we [consulted stakeholders on how this policy might work in practice \(https://www.gov.uk/government/consultations/tackling-the-hidden-economy-public-sector-licensing\)](https://www.gov.uk/government/consultations/tackling-the-hidden-economy-public-sector-licensing).

The majority of licensing bodies and other stakeholders were supportive of the principle of conditionality as set out in the consultation document. Stakeholders said the approach could be effective at moving people out of the hidden economy, and are supportive of HMRC's efforts to level the playing field in this way. In addition, stakeholders told us that the new tax check is unlikely to place onerous burdens on compliant businesses, where integrated with existing licensing requirements.

HMRC continues to work directly with licensing bodies and representative groups, as well as the Department for Transport, the Home Office and Welsh Government to make sure this approach is proportionate and compatible with existing licensing arrangements.

In addition, we recently sought views on how tax conditionality for these sectors could be implemented in Scotland and Northern Ireland.

Support for customers

HMRC will ensure the process for carrying out the new tax check works for everyone who needs to use it, and that customers will have access to extra support and guidance where necessary. This includes anyone who is unable to use the online service.

Over the coming months we'll conduct extensive user testing of the online system, and are working with licensing bodies, licence holders and representative bodies to make sure our communications to customers hit the mark.

HMRC's strategy for tackling the hidden economy

HMRC is clear the majority in these sectors already pay the tax that is legally due. We are committed to levelling the playing field for compliant businesses so those who meet their tax obligations aren't disadvantaged, or undercut, by those who don't.

Tax conditionality is just one element of our strategy to tackle the hidden economy, which is made up of the minority of individuals and businesses who have sources of taxable income that are entirely hidden from HMRC.

The most recent tax gap estimates the UK lost around £2.6 billion of tax revenues to the hidden economy in 2018 to 2019 – depriving vital public services of funding.

Conditionality is a proportionate and cost-effective way of moving people – some of whom simply don't understand their obligations – out of the hidden economy. It complements existing licensing rules, and recognises that third parties play a vital role in helping people pay the right tax – as referenced in the [tax administration strategy \(https://www.gov.uk/government/publications/tax-administration-strategy/building-a-trusted-modern-tax-administration-system\)](https://www.gov.uk/government/publications/tax-administration-strategy/building-a-trusted-modern-tax-administration-system).

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