

Tackling the hidden economy



While the majority of UK taxpayers pay the tax they owe, a small minority are intent on ignoring their legal responsibility to register all their business activity and pay the tax due on it. This briefing explains how we tackle those who don't register all their business activity and work within what we call the 'hidden economy'.

What is the hidden economy?

The hidden economy refers to sources of income earned from the sale of goods or services, which have not been declared for tax purposes. Those who participate in the hidden economy are either:

- those whose activities and income are totally unknown to HMRC
- those who are registered for, and pay tax on one or more sources of income, but have another source of income that they do not disclose to HMRC.

Why it is important

We aim to ensure everyone pays the tax they owe. In doing so we not only safeguard the funds available to pay for the UK's public services, but also make sure no-one gets an unfair advantage by breaking the law through tax evasion.

The latest estimate for the gap between the tax that should theoretically be collected and what is actually collected is £32 billion. Of that, about £5 billion is estimated to be due to the hidden economy.

Our approach to the hidden economy

Our aim is to change the behaviour of those who are part of the hidden economy, or are tempted to join it, to ensure everybody pays the tax they owe. We are doing this by:

- supporting business start-ups with educational guidance and tools so they know what they need to do and are steered away from joining the hidden economy
- making compliance easier, so people come forward and pay the tax they owe

- improving how we identify those outside the tax system, including the use of more data held by third parties
- taking a tougher approach to those businesses who refuse to come forward.

What we are doing to tackle the hidden economy

We have a wide range of activity to identify and take action against those who are part of the hidden economy:

- our specialist hidden economy group has more than 580 staff working to identify those in the hidden economy and get them to pay the tax they owe
- we are targeting new and pre-start-up businesses with educational guidance and tools to help them pay the right amount of tax from the start. We are working closely with vocational colleges and e-trading sites to tailor education to people's needs
- in 2012-13 we investigated more than 19,300 potential hidden economy participants, securing more than £160 million in taxes
- we applied nearly 1,400 penalties for deliberate evasion by hidden economy participants in 2012-13, and since its introduction we have referred nearly 3,000 tax evaders to our Managing Deliberate Defaulters Unit. They will be closely monitored to ensure that they meet all their tax obligations
- we are targeting local markets to identify traders who have not paid Income Tax, National Insurance or VAT. Recent work has targeted areas of London, including Camden, Walthamstow and Southwark
- we are data matching the information we already hold to detect those who participate in the hidden economy, such as using property registration data to detect undeclared rents from landlords
- we have developed an online disclosure facility which is open to all non-compliant taxpayers, including those in the hidden economy, to register with us and sort out their tax affairs.

Supporting wider Government

We also work closely with other Government departments to tackle the effects of tax non-compliance. These activities include working with:

- the United Kingdom Border Agency (UKBA), to tackle the tax risks from those who are also exploiting illegal workers, securing nearly £2.5 million so far
- Trading Standards, the Vehicle and Operator Services Agency (VOSA) and the Department for Work and Pensions to identify hidden economy participants, benefit fraudsters and uninsured drivers, by stopping traffic at the roadside for inspection
- local authorities, to tackle tax risks associated with migrant workers and multiple occupation of houses
- London boroughs, UKBA, and the police to tackle rogue landlords who are exploiting some of the most vulnerable people in society. These people are being housed in garden sheds or makeshift structures, which often have unsafe, insanitary conditions. The landlords try to evade tax by charging cash-in-hand rents.

How you can help us

It is not right that a minority of businesses and individuals deliberately evade their taxes. You can help us to identify those responsible. If somebody is not paying tax on their business activities, you can report it to us here:

www.hmrc.gov.uk/tax-evasion/hotline.htm

To find out more

Find out how we are closing in on undeclared income at:

www.gov.uk/sortmytax

Learn more about how we are tackling non-compliance at:

www.hmrc.gov.uk/about/briefings