

Association of Accounting Technicians response to HM Treasury Call for Evidence: cash and digital payments in the new economy

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1. Introduction

- 1.1. The Association of Accounting Technicians (AAT) is pleased to have the opportunity to respond to the call for evidence on cash and digital payments in the new economy, published on 13 March 2018.
- 1.2. AAT is submitting this response on behalf of our membership and for the wider public benefit of achieving sound and effective administration of taxes.
- 1.3. Furthermore, the comments reflect the potential impact that the proposed changes would have on SMEs and micro-entities, many of which employ AAT members or would be represented by AAT's 4,250 licensed accountants.

2. Executive summary

- 2.1. **Improved security and reducing costs for business, especially SMEs were cited as the two most important issues that Government needs to address if it wants to encourage greater take-up of digital payments.** This was the view of AAT members as expressed in the *AAT Cash & Digital Payments Survey 2018* (3.9).
- 2.2. **The AAT Cash & Digital Payments Survey 2018 also found that accountant's clients are using less and less cash.** 3% of AAT licensed accountants stated that their clients were using more cash than they were 5 years ago, 10% used about the same and 53% were using less.
- 2.3. **When considering the current denominational mix, it is important that HM Treasury only proceed with change where there is strong supporting evidence to do so.** In the case of 1p and 2p coins there would appear to be evidence (3.24-3.28) where as in relation to the £50 note there appears to be little evidence with recommendations for change instead based purely on "perception" (3.21.-3.23).
- 2.4. **AAT does not recommend the implementation of a cash transaction limit.** Limits have been introduced in some EU countries but there is little evidence relating to the impact on legitimate businesses and furthermore many other EU countries have been strongly opposed. The Norwegian example of consumers being jointly and severally responsible with the trader if he or she does not pay the appropriate tax and VAT is worthy of exploration (3.36-3.39).

3. **AAT response to the call for evidence**

Chapter 2:

How do you expect digital payment methods, and the adoption of these by merchants and consumers, to change over the next 10 years?

- 3.1. Global digital payments volumes are predicted to increase by an average more than 10% a year, reaching nearly 726 billion transactions by 2020¹.
- 3.2. In the UK, as the Call for Evidence highlights, debit cards will overtake cash as the most frequently used form of payment in the UK, according to UK Finance.
- 3.3. The future for both cash and digital payment is changing rapidly. Against this backdrop AAT has surveyed its licensed accountant members to help inform its response to this Call for Evidence.
- 3.4. This *AAT Cash & Digital Payments Survey 2018* unsurprisingly revealed that no members believe there would be a stalling or decline in the rapid growth of digital payments.
- 3.5. The same survey indicates that a significant minority believe that all payments will be cashless within the next ten years (20%).
- 3.6. The survey also revealed that many members expect innovative changes to take place such as a switch to finger print payments.
- 3.7. There is also a strong view amongst members that the maximum contactless payment limit will again rise, making cash usage for small amounts increasingly rare. This is perhaps understandable given the history of increases from £10 to £20 (2012) and from £20 to £30 (2015).
- 3.8. The key drivers of this appear to be convenience, security and an increasing level of general acceptance. Promotion of new ways of payment by banks and card issuers (Visa, Mastercard etc.) has inevitably played a role too given the obvious financial benefits for them.

What further action could the government take to support greater adoption of digital payments by merchants and consumers?

- 3.9. The two most commonly cited suggestions in the *AAT Cash & Digital Payments Survey 2018* were improved security (33%) and reducing costs for business, especially SMEs (particularly micro-businesses) which was also cited by 33% of respondents.
- 3.10. 15% of survey respondents believe that consumer education was key with the remainder suggesting changes ranging from compulsion to no activity at all other than to leave developments to occur organically.
- 3.11. A reduced VAT threshold and an increased maximum limit for contactless payments were other suggestions put forward by members.

Processing payments for cash and digital payments, how is it changing?

- 3.12. Merchants have little choice but to accept these new forms of payment if they are to retain custom. Those that embrace such changes are likely to be more successful than those that don't given the increasing consumer demand for quick, easy and secure methods of payment.
- 3.13. Whilst it is commonly believed that interchange fees and the like mean retailers will often favour cash, even if their customers do not, there have always been quite significant charges for retailers to bank their cash to their business bank account as demonstrated by the British Retail Consortium Payments Survey which show the average transaction cost to merchants of processing cash is 0.15% of turnover as acknowledged by the Call for Evidence (2.16).

¹ World Payments Report 2017: <https://www.worldpaymentsreport.com>

- 3.14. The EU cap on interchange fees and additional UK Government action (PSDII) has made card payments more attractive from a merchants cost perspective.

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

- 3.15. The Call for Evidence states that the UK is widely considered to be world leading (2.14) but whilst undoubtedly successful it has a long way to go to replicate the virtually cashless system now enjoyed by Sweden.
- 3.16. With just 1% of transactions made using notes and coins and a totally cashless society predicted by 2030², the UK may be able to learn some lessons from the Swedish experience.

Chapter 3:

How does the level of cash that you handled or used this year compare to what you handled or used five years ago? 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?

- 3.17. The *AAT Cash & Digital Payments Survey 2018* included a question asking licensed members how their clients use of cash had changed over the past five years.
- 3.18. 3% stated their clients were using more cash than they were 5 years ago, 10% used about the same and 53% were using less.
- 3.19. There is no reason to expect this trend to stop over the next five years.
- 3.20. This *AAT Cash & Digital Payments Survey 2018* result would appear to largely mirror the national trend that has seen a decline in cash usage. Of course, businesses already use cash far less extensively than consumers³.

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

- 3.21. With regard to the issue of £50 notes, the Call for Evidence suggests that, “...*the £50 note is believed to be rarely used for routine purchases.*” Yet this does not correspond to the experiences of taxi drivers, antique dealers and many others who frequently receive payment which includes £50 notes.
- 3.22. It is also worth taking into consideration the £3bn spent each month by non-UK residents who make tens of millions of trips to the UK each year⁴ and will frequently seek to use £50 notes as the highest denomination to reduce the number of notes carried during their stay.
- 3.23. AAT is always supportive of measures that genuinely reduce incidences of money laundering. However, there is little hard evidence to suggest removing the £50 note from circulation will achieve this. If money launderers are using £50 notes, their removal will simply dictate that they use £20 notes instead rather than dealing with the problem itself.
- 3.24. In relation to 1p and 2p coins, the evidence referenced in the Call for Evidence appears substantial. Notably this includes, that the majority of 1p and 2p coins are used in a transaction only once before they leave the cash cycle, having been saved in jars or thrown away; that the Royal Mint need to produce and issue over 500 million 1p and 2p coins each year to replace those falling out of circulation; and that the cost of production is the same as for higher denomination coins, meaning it is costing more to make and distribute the coin that it is worth. These factors suggest there is a strong case for removing these coins from circulation.

²BBC, 2017: <http://www.bbc.co.uk/news/business-41095004>

³ UK Finance, 2017: <https://www.ukfinance.org.uk/wp-content/uploads/2017/08/Summary-UK-CASH-AND-CASH-MACHINES-3.pdf>

⁴ ONS Statistics: <https://www.ons.gov.uk/peoplepopulationandcommunity/leisureandtourism>

- 3.25. However, sensationalist newspaper headlines during the week following the launch of this Call for Evidence appear to have hamstrung the Treasury from acting. The Daily Mail front page called it “a PR disaster in the making”, the front page of the Sun said, “Save our coppers,” and the Daily Mirror complained: “Pennies dropped.” Subsequent Downing Street responses appeared to suggest that there would be no change to the current denominational mix.
- 3.26. This is clearly an emotional issue, with common sense and reality largely being discarded. For example, much has been made about the impact on sales of sweets priced at 1p and 2p, however the reality is that these no longer exist. Likewise, references to items for sale on eBay for 1p fail to recognise this is merely the starting bidding price with almost no items actually sold for this figure.
- 3.27. A more serious argument against the removal of such coins comes from the charity sector. The Small Charities Coalition and others have raised concerns about increased costs as charities would have to move to contactless collection tins which have a transaction cost. In addition, consider the likes of McDonalds and most independent newsagents who have collections boxes at points of sale, filled with millions of unwanted 1ps and 2p coins which are consequently donated to various charities.
- 3.28. The issues raised at 3.27 may be combatted by members of the public giving 5p coins instead of lower denominational coinage, potentially increasing charitable giving rather than decreasing it. Either way, HM Treasury would need to bear the impact on charities in mind before acting.
- 3.29. The challenge in overcoming public perception is partly demonstrated by the results of the *AAT Cash & Digital Payments Survey 2018* which illustrated overwhelming support for the maintenance of the existing denominational mix. Almost three quarters (73%) of respondents wanted the current mix to be retained.
- 3.30. In comparison, 10% would like less and 17% were unsure. Not a single member suggested they would like any additions to the existing denominational mix.

Chapter 4:

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

- 3.31. The *AAT Cash & Digital Payments Survey 2018* included a question asking licensed members if they believe cash usage was likely to increase tax evasion, hidden economy, and money laundering risks in the accountancy sector.
- 3.32. Almost two thirds (63%) believe that it is. Almost a quarter (23%) believe that it isn't and 13% were unsure.

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)?

- 3.33. Members views in the *AAT Cash & Digital Payments Survey 2018* varied. A common theme related to receipt issuance which is perhaps unsurprising given this is the example given in the Call for Evidence question itself.
- 3.34. It was suggested that it is compulsory to provide receipts as in some EU states and that adopting this approach may help. Others suggested the same but only for amounts above a certain level.
- 3.35. Increasing investigations and enforcement, promoting enforcement activities as a deterrent and moving to a solely cashless society were other potential solutions put forward by members.

Are there other international examples of countries which have tackled tax evasion and money laundering associated with cash that the UK should look to? Should the UK follow a similar pathway to other countries and implement a cash transaction limit? If so, what would be an appropriate threshold?

- 3.36. AAT suggests that HM Treasury may wish to look at the Norwegian model. Here there is no limit on cash payments for purchasing goods but purchasing services from the self-employed is limited to 10,000 NOK after which a consumer is jointly and severally responsible with the trader if he or she does not pay the appropriate tax and VAT.
- 3.37. AAT notes that the example of France, Belgium and Spain having limits of €15,000 is given in the Call for Evidence (4.22) utilising RUSI evidence. However, it is also noted that no mention is made of Germany and other countries also quoted in the same paragraph of that RUSI evidence as having no limits and being fiercely opposed to implementation.
- 3.38. Furthermore, these EU limits are far from as simple as implied. For example, in France the limit varies depending on your status as a resident or non-resident.
- 3.39. In addition, as RUSI acknowledge, “... *there has not been much considered assessment of the arguments for and against cash thresholds that looks more broadly at the potential impact of such thresholds on tax evasion and financial crime and the possible disruption of legitimate economic activity.*”⁵
- 3.40. Considering the above, AAT does not recommend the implementation of a cash transaction limit.

4. About AAT

- 4.1. AAT is a professional accountancy body with approximately 50,000 full and fellow members and over 90,000 student and affiliate members worldwide. Of the full and fellow members, there are more than 4,250 licensed accountants who provide accountancy and taxation services to over 400,000 British businesses.
- 4.2. AAT is a registered charity whose objectives are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.

5. Further information

- 5.1. If you have any queries, require any further information or would like to discuss any of the above points in more detail, please contact Phil Hall, AAT Head of Public Affairs & Public Policy, at:

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⁵ Limiting the use of cash for big purchases, September 2017:

https://rusi.org/sites/default/files/201709_rusi_limiting_the_use_of_cash_for_big_purchases_sands.campbell.keatinge.weisman_web.pdf