



TACKLING THE HIDDEN ECONOMY: EXPANDING TAX CONDITIONALITY TO NEW SECTORS

Issued 28 January 2025

ICAEW welcomes the opportunity to comment on the consultation document entitled “Tackling the hidden economy: expanding tax conditionality to new sectors” published by HMRC on 30 October 2024, a copy of which is available from this [link](#).

This response of 28 January 2025 has been prepared by the ICAEW Tax Faculty. Internationally recognised as a source of expertise, the ICAEW 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’s Ten Tenets for a Better Tax System, by which we benchmark the tax system and changes to it, are 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 169,000 chartered accountant members in over 146 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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For more information, please contact: taxfac@icaew.com

ICAEW

Chartered Accountants’ Hall Moorgate Place London EC2R 6EA UK
icaew.com

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Registered office: Chartered Accountants’ Hall Moorgate Place London EC2R 6EA UK

KEY POINTS

1. ICAEW supports HMRC measures designed to close the tax gap by reducing tax evasion, fraud and error.
2. ICAEW does not have any experience in the sectors into which HMRC proposes to extend tax conditionality. Our membership base is also limited in those sectors. We cannot therefore comment on the impact on those sectors of extending tax conditionality. As such, we do not provide answers to the specific questions raised in the consultation document in this response.
3. As a general rule, we believe that the cost of any new requirements arising from an additional administrative burden on businesses needs to be weighed against the positive impact those requirements have on reducing the tax gap.
4. We note at paragraph 1.23 of the consultation document that HMRC “estimated the proposals would generate £260m as a result of bringing people out of the hidden economy.” It is not clear whether this is referring to the extension of tax conditionality to taxis and private hire vehicles in April 2022, the extension of that requirement to such vehicles in Scotland and Northern Ireland in October 2023 or the current proposals. Either way, we would like to understand what work has been done by HMRC to evaluate the quantum of additional tax raised through tax conditionality to date and how that informs the proposals to extend it.
5. As a point of principle, we believe that any extension should only take place if a positive effect on reducing error, fraud and evasion can be anticipated from available data.

APPENDIX 1

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

The tax system should be:

1. **Statutory:** tax legislation should be enacted by statute and subject to proper democratic scrutiny by Parliament.
2. **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.
3. **Simple:** the tax rules should aim to be simple, understandable and clear in their objectives.
4. **Easy to collect and to calculate:** a person's tax liability should be easy to calculate and straightforward and cheap to collect.
5. **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.
6. **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.
7. **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.
8. **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.
9. **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.
10. **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>).