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5 July 2018

Dear Mary,

### **House of Commons Environmental Audit Committee: Hand Car Washes**

Thank you for your interest in HMRC's work in tackling the hidden economy. One of HMRC's objectives is to maximise revenues and bear down on avoidance and evasion. Those behaviours deprive the government of billions of pounds to fund vital public services, distort fair competition between businesses and place unfair burdens on the compliant majority who pay their fair share of taxes.

I can confirm that the hand car wash sector is an area of interest for HMRC. We regularly undertake investigations across the UK, often in partnership with other government agencies, to tackle non-compliance in the sector. There are also a range of other potential behaviours that may occur in the sector where HMRC has an important role to play. For example, HMRC has operational responsibility for enforcing the National Minimum Wage (NMW) and we have open investigations in the car wash sector. We also have a role in tackling illegal working in the UK (the employment of those who have no right to be in the UK or who are working beyond their visa restrictions).

In relation to non-compliance with tax obligations, there are two major 'non-compliance behaviours' that we would be concerned with in the hand car wash sector. The activities you have enquired about might include businesses that are evading tax (for example by not administering PAYE correctly for each of their employees) or those said to be operating in the 'hidden economy', where entire sources of taxable economic activity are hidden from HMRC.

HMRC goes to great lengths to assess the relative size and nature of non-compliance with the tax system. Each year HMRC publishes its assessment of the tax gap. The tax gap is the difference between the amount of tax that should, in theory, be paid to HMRC, and what

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is actually paid. However, we do not estimate the tax gap on a sector by sector basis; it is broken down by customer group, type of tax and behaviour. You can find more information on the Tax Gap at:

<https://www.gov.uk/government/statistics/measuring-tax-gaps>

HMRC estimates that the hidden economy tax gap was £3.2 billion in 2016-17, and for evasion, it was £5.3bn. Although we do not measure those tax gaps by sector, the numbers quoted in evidence to the committee look to be too high to be credible. HMRC wouldn't expect tax losses from just the hand car wash sector to drive six to 12 percent of the relevant tax gaps (£500m - £1bn as a percentage of £8.5bn).

Our data on tax investigations and settlements doesn't separately identify hand car wash cases. However, I can give you a general overview of our approach, which I hope will give you reassurance. HMRC uses a data-driven and risk-based approach to identify tax non-compliance and evasion, allowing us to target our resources most effectively. In the case of those who continually and deliberately evade their tax, we maximise our impact in cracking down on this behaviour through a range of activities and deterrents. This can include the imposition of penalties, civil litigation and criminal prosecution.

For high-risk sectors – such as particular locations or businesses - we use a taskforce approach for people who do not comply with tax rules. We also undertake 'campaigns' that are designed to stop customers making errors in the first place, help people bring their tax affairs up to date and keep them that way. More information on campaigns and taskforces can be found at: <http://www.hmrc.gov.uk/ris/hmrc-campaigns.htm>

HMRC is also increasing its operational response to non-compliance. At Autumn Statement 2015 we received an additional £800 million investment to crackdown on tax avoidance, aggressive tax planning and evasion. At Autumn Budget 2017 the government announced that it is investing further in HMRC to help transform the department's operational approach to tackling the hidden economy. The investment will allow HMRC to further develop our digital risking tools to better identify hidden tax risks, and improve the way that we tackle those risks with smarter, more effective compliance responses.

Yours sincerely,



**JON THOMPSON**  
**CHIEF EXECUTIVE AND PERMANENT SECRETARY**