

HIDDEN ECONOMY ADVISORY GROUP - TERMS OF REFERENCE

<p>Membership</p>	<p>Chair:</p> <ul style="list-style-type: none"> • Mike Eland, Director General of Enforcement and Compliance, HMRC <p>Full Members:</p> <ul style="list-style-type: none"> • Professor John Hasseldine, Tax Research Institute, Nottingham University Business School • Paul Webley, Professor of Economic Psychology, School of Oriental and African Studies • Andrew Cave, Head of Policy, Federation of Small Business • Aaron Barbour, Head of linksUK (interim), Community Links <p>Observers:</p> <ul style="list-style-type: none"> • Representatives from the Department for Work and Pensions and Local Government will attend the Advisory Group as observers.
<p>Hidden Economy – Definition:</p>	<p>The hidden economy consists of taxable economic activity from sources entirely unseen by HM Revenue and Customs (HMRC). It is estimated to represent 7.5 per cent of the tax gap. It is distinct from evasion, which is the understatement of liability arising from sources known to HMRC.</p>
<p>Context</p>	<p>The 1999 Pre-Budget Report announced a report into the hidden economy by Lord Grabiner QC, which reported its findings at Budget 2000. There have been significant changes in the intervening ten years:</p> <ul style="list-style-type: none"> • HMRC has been formed out of the Inland Revenue and Customs and Excise. • Many of the rules governing entry into the formal economy have been modernised as a result of the Review of Powers, Deterrents and Safeguards, for example the creation of the new penalties framework in recent Finance Acts. • The socio-economic environment has changed, with factors such as the increase in migration from EU accession states having a significant impact on the profile of the hidden economy. • The recommendations of Lord Grabiner have been implemented and tested across government. <p>This is an opportunity to utilise external expertise once again in considering issues with the hidden economy.</p>
<p>Aims and objectives</p>	<p>The group will examine the tax system and HMRC's administrative processes and consider the whether they facilitate or prevent people from joining the formal economy.</p> <p>This will include an assessment of the barriers – financial, practical or other – that act as disincentives to entering the formal economy. It will also examine the behaviours and attitudes of those that choose to remain in the hidden economy.</p> <p>Based on this assessment, it will consider what actions that HMRC can take to increase the number of people that make the transition into the formal economy. It will do this while ensuring that HMRC continues to act in a manner that is fair to those who already pay their taxes.</p>

Outputs	<p>The group will act in an advisory capacity, and will present their recommendations for HMRC and HMT to consider.</p> <p>The group will present initial findings on a Budget 2010 timescale. These should include an initial assessment of the current situation and proposals for practical and immediate steps that could be taken by HMRC.</p>