National Audit Office

REPORT

Tackling tax evasion in high street and online retail

HM Revenue & Customs

SESSION 2024-25
9 SEPTEMBER 2024
HC 229

Contents

This report can be found on the National Audit Office website at www.nao.org.uk

If you need a version of this report in an alternative format for accessibility reasons, or any of the figures in a different format, contact the NAO at enquiries@nao.org.uk

The National Audit Office study team consisted of:

Rosie Diamanti, Chayenne Mosk, Rich Sullivan-Jones and Calum White, with assistance from George Escott, Anna McManus, Douglas Thomas and Callum Walker, under the direction of Andy Morrison.

For further information about the National Audit Office please contact:

National Audit Office
Press Office
157–197 Buckingham Palace Road
Victoria
London
SW1W 9SP

020 7798 7400

www.nao.org.uk

@NAOorguk

Key facts

£5.5bn

HM Revenue & Customs' (HMRC's) illustrative estimate of tax lost due to evasion in 2022-23, equivalent to 0.7% of total theoretical tax liabilities which has been stable since 2019-20

81%

proportion of estimated evasion losses in 2022-23 that come from small businesses (which include companies, partnerships and sole traders), up from 66% in 2019-20

20%

increase in UK company incorporations recorded by Companies House from 665,000 in 2019-20 to 801,000 in 2022-23, prior to new checks coming into force (from March 2024)

42%	proportion of currently registered retail companies that were incorporated since January 2023, compared with 23% for companies in all sectors, indicating a potentially higher risk of fraud in the retail sector
March 2024	the date that Companies House received new powers to check information for company registrations, request evidence and remove inaccurate information
£450 million	HMRC's latest indicative estimate (from 2019) of annual tax lost due to electronic sales suppression, which involves using software to reduce the recorded value of transactions
£500 million	annual tax that may be lost, based on HMRC's latest indicative estimate of 15% of tax debt losses (from 2022-23), due to phoenixism, which involves companies falsely declaring themselves insolvent then continuing the same business as a new company to evade their debts
£300 million	HMRC's latest indicative estimate (from 2021-22) of annual VAT evasion by overseas retailers selling goods and services online
£1.5 billion	additional tax that HMRC estimates it now collects each year following 2021 changes that made online marketplace liable for the VAT from overseas sellers
19:1	average return on investment for 16 HMRC compliance projects aimed at tackling non-compliance in online retail

Summary

1 HM Revenue & Customs (HMRC) estimates that tax evasion costs around £5 billion a year in lost revenue and is most prevalent among small businesses. Tax evasion occurs where taxpayers deliberately omit or falsify information in tax returns to reduce their tax liability.[1] As well as resulting in lost revenue, it can also prevent a level playing field between businesses, by giving evaders an unfair competitive advantage.

2 HMRC is responsible for tackling tax evasion for the taxes it administers and works with other public bodies to do so. This includes Companies House (responsible for company registrations), the Insolvency Service (responsible for enforcement relating to director disqualifications and corporate abuse) and local authorities (various responsibilities relating to high street businesses). Local authorities are responsible for tackling evasion of local taxes such as business rates.

3 Tax evasion takes different forms and motivations can vary, from businesses struggling with financial pressures to wilful and persistent evasion. Stakeholders and correspondents have raised concerns with us about new and evolving evasion risks in the retail sector, both on the high street (including souvenir and sweet shops) and by overseas retailers selling goods online. Examples include fraudulent company registrations, overseas sellers evading VAT through online marketplaces, and businesses understating sales figures or companies artificially declaring themselves insolvent and setting up a new company (known as "phoenixism"). Our past reports have highlighted risks of online VAT fraud and phoenixism.[2,3] The Committee of Public Accounts recommended in May 2023 that there was a strong value for money case for increasing resources for HMRC's compliance work.[4]

4 Government has introduced legislative changes to help tackle tax evasion. Some changes have focused specifically on tax compliance (such as making online marketplaces liable for VAT from overseas sellers since January 2021), while others relate to economic crime more widely (such as 2024 reforms to the role of Companies House in registering companies).

1 Tax evasion does not include error or failure to take reasonable care and is different to the hidden economy and organised crime.
2 Comptroller and Auditor General, *Investigation into overseas sellers failing to charge VAT on online sales*, Session 2016-17, HC 1129, National Audit Office, April 2017.
3 Comptroller and Auditor General, *Managing tax debt through the pandemic*, Session 2021-22, HC 799, National Audit Office, November 2021.
4 Committee of Public Accounts, *Managing tax compliance following the pandemic*, Forty-Ninth Report of Session 2022-23, HC 739, May 2023.

Scope of this report

5 This report examines whether HMRC, with other relevant parts of government, is well-placed to tackle tax evasion in high street and online retail. It covers:

- how well HMRC understands and assesses the risk and scale of tax evasion in retail, and its strategy to tackle evasion (Part One);
- whether HMRC, with key partners, has cost-effective systems and controls to reduce the risk of tax evasion in retail (Part Two); and
- whether HMRC responds effectively to different methods of tax evasion in retail, and ensures lessons are learned to improve its approach (Part Three).

6 As well as assessing HMRC's overall approach to tax evasion in retail, we examined specific risk areas in more depth. These were: contrived business insolvency and phoenixism, VAT evasion by overseas retailers selling through online marketplaces, and sales suppression (under-declaring income to reduce taxes). In some cases, our findings may also be relevant to HMRC's compliance work with other business sectors. Our approach is outlined in Appendix One.

7 We have not directly assessed the work of local authorities to tackle tax evasion locally, HMRC's approach to other forms of tax non-compliance, or wider government efforts in tackling crime. However, some of our findings have wider application to risks of organised crime or money laundering, or to the hidden economy (for example where business deliberately do not register at all for VAT, which HMRC measures separately from evasion).

Key findings

The risk of tax evasion in retail and HMRC's strategy to address it

8 **HMRC estimates that levels of tax evasion have been stable overall in recent years, but that it has been increasing among small businesses.** HMRC's illustrative estimate is that the evasion tax gap was £5.5 billion in 2022-23, equivalent to 0.7% of taxes owed.[5] This percentage has remained stable since 2019-20. Evasion from small businesses – which include companies, partnerships and sole traders – increased from £3.1 billion (66% of the evasion tax gap) in 2019-20 to £4.4 billion (81%) in 2022-23. HMRC does not estimate levels of evasion by sector but has identified certain types of retailers as higher risk. It has carried out research and campaigns on certain industries, including takeaways and sweet shops, and on widely used methods such as suppressing sales figures. Evasion can be difficult to detect because evaders seek to keep it hidden, and identifying it depends on HMRC demonstrating that taxpayers wilfully intend to evade tax. HMRC does not put a range on its estimates, and levels of evasion could be much higher or lower (paragraphs 1.4 to 1.9).

5 The tax gap is the difference between taxes collected by HMRC and the theoretical liability, or what, in theory, should be collected. HMRC estimates the overall tax gap was £39.8 billion in 2022-23, or 4.8% of total theoretical liabilities. This includes errors, defaulting on tax bills, and deliberate non-compliance.

9 **HMRC does not have a specific strategy for addressing tax evasion, focusing instead on tackling strategic risks of non-compliance to prevent the overall tax gap from increasing.** HMRC has an overall compliance strategy that focuses on tackling all forms of non-compliance, with an overall aim to stop the tax gap increasing. The strategy is primarily tailored around types of taxpayers, such as small or medium-sized business. HMRC has chosen not to develop a specific strategy for tackling tax evasion, or other forms of non-compliant behaviour (such as tax avoidance) in case this undermines its ability to deploy resources flexibly to changing risks. This means HMRC does not have a specific focus on, or explicit objective for, its performance in tackling tax evasion. Instead, it estimates the overall level of non-compliance through its estimate of the tax gap, and focuses its assessment and approach on the risks to revenue for the taxes it administers. However, its risk assessments are specific to HMRC and do not consider the wider consequences of evasion to the revenue of other public bodies. Its approach gives less emphasis to the controls and mitigations available through other parts of government, and the wider impact of evasion on competition within retail markets (paragraphs 1.20 to 1.24).

10 **HMRC has identified overseas retailers evading VAT online as a significant strategic risk for tax evasion in the retail sector.** This type of evasion can take different forms and includes both direct sales and those made through online marketplaces. For example, it can happen when an overseas retailer falsely represents itself as a UK-established business so that online marketplaces do not apply the correct VAT liability.[6] HMRC recognises VAT non-compliance by overseas retailers as a distinct strategic risk, assesses its scale each year, and sets a specific plan that considers the effectiveness of controls in reducing the risk. HMRC's latest indicative estimate is that, in 2021-22, VAT non-compliance by overseas retailers selling goods and services online resulted in losses of around £700 million, of which around £300 million was deliberate evasion. HMRC's best estimates indicate that £150 million of non-compliance may occur through online marketplaces, though the estimates are uncertain. The growth of online sales and ability of companies to operate from anywhere in the world means that tax evasion from online sales has the potential for significant growth (paragraphs 1.14, 1.16 and 1.24).

11 **HMRC's approach may not sufficiently prioritise some pervasive forms of tax evasion, such as electronic sales suppression (ESS) and phoenixism.** HMRC focuses its strategic risks and associated plans on tax types and taxpayer groups. Some forms of non-compliance that affect multiple taxes or connected taxpayers are not captured effectively by this approach, even though some are large, and HMRC does not have a clear basis on which to decide when a separate strategy is needed or should be updated (paragraphs 1.23 and 1.24). HMRC does not treat two of our three case study areas as strategic compliance risks, but has developed a more coordinated approach, with varying levels of impact.

6 For VAT purposes, HMRC considers that a business is UK-established if the place where essential management decisions are made and central administration is carried out is in the UK, or the business has a permanent physical presence in the UK and is able to make or receive taxable supplies in the UK.

- HMRC does not treat phoenixism as its own strategic risk and has instead considered its effect within its assessments of other strategic risks each year. In 2021, HMRC recognised it needed a dedicated insolvency strategy for the first time and introduced one in 2022, including a focus on phoenixism within it. Its updated approach focuses on minimising lost revenue and preventing phoenixism, including by identifying where insolvencies are likely to occur and proactively targeting interventions. While phoenixism has existed for many years, HMRC did not fully assess its scale until 2023. HMRC's latest indicative estimate is that phoenixism accounted for 15% of its tax debt losses in 2022-23, which equates to more than £500 million. However, HMRC's strategy gives limited consideration to the important role of the Insolvency Service and private sector insolvency practitioners in identifying and addressing phoenixism. It also does not consider potential overlaps with losses to other public sector creditors, such as business rates owed to local authorities (paragraphs 1.12, 1.13, 1.24, 3.5 and 3.6).
- Sales suppression has increasingly involved the supply and use of ESS software to remove or reduce the recorded value of transactions. HMRC found in 2016 that a certain form of ESS may result in £100 million of tax losses, before making an overall indicative estimate in 2019 that losses due to all ESS could be at least £450 million per year. HMRC introduced an ESS strategy in 2019, which included objectives to improve its understanding of and response to ESS and a series of actions to meet those objectives. However, HMRC has not updated this strategy or kept its assessment of the risk up to date. More sophisticated electronic sales suppression methods are increasingly marketed to businesses. HMRC has not updated its estimate of the scale of tax losses since 2019, but plans to do so in December 2024 (paragraphs 1.19 and 1.24).

12 **HMRC does not know how successful it is in tackling tax evasion, in aggregate or for particular taxpayer groups.** HMRC estimates that its compliance work reduces the tax gap to around half the level it would otherwise be, but it does not track how much of this reduction relates to different types of non-compliant behaviour. HMRC calculates the 'compliance yield' from its work on individual strategic risks, but many such risks include multiple types of non-compliance. For example, VAT non-compliance by overseas sellers includes errors and failure to take reasonable care, as well as wilful evasion. We previously recommended that HMRC be more consistent in evaluating the effectiveness of compliance work, which could provide greater insight into its impact. While HMRC has increased how many evaluations it conducts, it does not use these to consider its overall impact in tackling tax evasion or feed lessons on what works well into its plans (paragraphs 1.25 to 1.27 and 3.13).

The effectiveness of controls to prevent tax evasion in retail

13 **Weaknesses in company registration requirements and tax processes have left the UK too open to tax evasion.** Since 2011, it has been quick and easy to set up UK companies online from anywhere in the world. Until 2024, Companies House had limited powers to be a control or to check the validity of information provided by registered companies, and companies have been able to register and dissolve before submitting a tax return. Company registrations surged in 2022-23 with 801,000 registrations, 136,000 (20%) more than in 2019-20. Of registered companies declaring themselves as retailers, 42% were incorporated since January 2023. This compares with 23% of companies in all sectors, which may indicate a potentially higher risk of fraud in the retail sector. Separately, HMRC conducts checks of whether businesses registering for VAT are UK-established based on known indicators of risk, but does not verify this in most cases. The UK may be more attractive to tax evaders where it has fewer requirements than other countries. Many Organisation for Economic Co-operation and Development (OECD) countries require businesses to use electronic cash registers or to regularly report transactions to the tax authority (paragraphs 2.5, 2.8, 2.11, 2.12 and 2.20 and Figure 11).

14 **HMRC took steps to reduce online VAT non-compliance in 2021 and has raised far more revenue than it expected.** To reduce the risk of overseas sellers evading VAT, the government introduced a legislative change in January 2021 which made online marketplaces liable for VAT on sales from overseas retailers. Other jurisdictions subsequently introduced similar changes, including the European Union (EU) (from July 2021). HMRC estimates that, following the change, it now collects at least £1.5 billion a year more VAT. This is five times the level HMRC predicted, which it attributes primarily to increased online sales during and since the COVID-19 pandemic. HMRC has not quantified the impact of this to confirm its assessment (paragraphs 1.15, 2.6 and 2.7).

15 **Significant gaps remain in checks around online retailers, and overseas companies can falsely present themselves as UK-based to evade VAT.** Online marketplaces are liable for VAT from overseas retailers, increasing incentives for sellers to falsely represent themselves as UK-established. To meet their obligations, online marketplaces must charge VAT on sales made by overseas sellers. They need to determine the correct liability or demonstrate they have taken reasonable steps to do so, including whether sellers are UK-established. However, they do not have access to HMRC data due to rules on taxpayer confidentiality, and HMRC has not provided clear advice, guidance or support, such as a data matching service that could help them make the determination. Some online marketplaces told us they were concerned there is too much reliance on sellers providing documentary proof that is difficult to verify, and have seen an increase in false documentation and services marketed overseas to help evaders systematically avoid the rules. HMRC told us it regularly reviews and updates the information and processes it uses to assess the risk of a business providing an incorrect address or falsely presenting itself as UK-established. In early 2024, HMRC identified and wrote to 12,000 businesses to inform them that it considered they had no UK establishment and would inform any relevant online marketplaces, unless the businesses provided evidence that they were UK-established (paragraphs 2.6, 2.7 and 2.14 to 2.17).

16 **Stricter requirements introduced at Companies House from March 2024 should make fraudulent company registrations more difficult, but the changes will take time to implement, and gaps remain.** The Economic Crime and Corporate Transparency Act 2023 significantly changes the role of Companies House, in order to improve the reliability of information on the company register. The first changes came into force in March 2024, including new powers to check information for company registrations, request evidence and remove inaccurate information, and increased sharing of data. The recent surge in registrations may include an attempt to stockpile companies before checks came into force. Some new measures will not be fully operational until Companies House develops the necessary systems and capability, or until further secondary legislation is in place, such as verifying directors' identities. The new controls are also not intended to verify the address or place of business, limiting the direct impact in reducing VAT evasion (paragraphs 2.9, 2.11 and 2.18).

17 **HMRC and Companies House have discussed closer integration of systems to tighten registration requirements but estimate these will take five to 10 years to implement.** HMRC and Companies House have explored opportunities from Companies House's new powers. They have established immediate and short-term improvements, including 'cleaning' the company register to improve its accuracy, and greater sharing of data and intelligence. They have also identified more ambitious changes with a larger impact in preventing tax non-compliance. This includes single streamlined systems for company, corporation tax and VAT documentation that would provide assurance over companies' addresses. However, these changes require investment and would rely on other initiatives being further progressed first, including Making Tax Digital and the cross-government OneLogin system that supports public service users to prove their identity (paragraphs 2.21 and 2.22).

Responding to tax evasion in retail

18 **While HMRC makes extensive use of data to identify non-compliance, there is a risk that failing to establish and penalise deliberate evasion weakens the deterrent effect of HMRC's compliance work.**

- **With finite resources, HMRC often does not seek to establish whether non-compliance in retail is deliberate evasion, in order to maximise its reach.** HMRC uses specialised software to collate and analyse data from other government bodies and the private sector to identify risky businesses or transactions for further investigation. In many cases, HMRC has identified groups of businesses whose tax returns looked lower than expected (such as thousands of takeaway restaurants it identified from 2021-22 to 2023-24). It has written to these and found that many then corrected their tax returns. This can be an efficient way to increase compliance among specific taxpayer groups, particularly where non-compliance may be due to error or carelessness. HMRC seeks to balance this approach with in-depth one-to-one investigations to maximise its reach across large numbers of taxpayers. However, evaders may avoid detailed scrutiny by simply correcting their tax returns if HMRC does not target individual investigations effectively. While individual investigations are more costly, HMRC data indicate they can be far more effective in tackling evasion when targeted in high-risk populations or sectors (paragraphs 3.14 to 3.18).
- **HMRC has reduced its use of prosecutions, instead pursuing the worst offenders more vigorously.** The number of prosecutions resulting from HMRC's criminal investigations reduced from 749 in 2018-19 to 344 in 2023-24. In part, this reduction was due to the COVID-19 pandemic, but it also reflects HMRC focusing its criminal enforcement work more towards high-value, high-harm fraud. In response to concerns raised by the Committee of Public Accounts in May 2023, HMRC agreed to examine the deterrent effect of its criminal investigations resulting in prosecutions. It finished the first phase of this in June 2024 and expects to complete the work by summer 2025 (paragraph 3.19).

19 **HMRC's compliance work has yielded additional tax revenue, but it has not yet used all the powers it has secured to tackle evasion in retail.** In the areas we examined, we found the following.

- To help tackle phoenixism, HMRC has powers to require securities against future tax liabilities for successor companies where it identifies a risk of tax loss. For example, a compliance project in 2020 used these powers to protect £31 million of revenue from 103 cases. HMRC also gained new powers in 2020 to pursue directors for company debt where it considers they are declaring insolvency simply to avoid paying tax. HMRC said in 2023 it would report on the performance and impact of its phoenixism work in its 2023-24 annual report. While HMRC reported partial results of its activity in its annual report, it did not give a clear overview of its performance or impact (paragraph 3.5).

- HMRC first recognised online VAT fraud and error as a priority in 2014. It introduced several measures between 2016 and 2020, including new powers to hold online marketplaces jointly and severally liable for unpaid VAT. HMRC provided us with a list of 16 compliance projects targeting online retail. These raised £87 million of additional tax revenue at an average return of £19 to every £1 HMRC spent. HMRC was also given powers to require overseas businesses with no UK establishment to appoint a UK VAT representative, but to date it has not used these powers. Tax losses did not significantly reduce until changes in 2021 to make online marketplaces liable for collecting VAT from overseas sellers (paragraphs 3.7 and 3.8).
- HMRC first assessed a certain type of ESS in 2016, and more fully assessed it in 2019 indicating annual losses of £450 million. It was not until 2022 that the government introduced new civil enforcement and data collection powers for HMRC to tackle ESS. It has not yet issued any penalties using these powers, but it told us that these powers have generated publicity which it believes has had a deterrent effect. HMRC said it would evaluate these powers again in the next phase of ESS work. HMRC estimates that the compliance yield from its work on ESS has increased from £17 million in 2022-23 to £98 million in 2023-24 due to increased focus and casework (paragraphs 3.9 and 3.10).

20 HMRC has made changes to improve how it manages fraud and evasion after missing earlier opportunities to tackle phoenixism and other tax evasion among London souvenir shops. From 2011 onwards, HMRC was made aware of detailed concerns that some London souvenir shops were evading tax. When HMRC later reviewed its response, it found that it had handled the concerns in line with its guidance and prevailing practice at the time. It concluded that the cases were handled in the manner that HMRC would have expected, bearing in mind the maturity of its systems and processes in earlier years covered by the case. It identified limitations in its approach that had led to a narrow focus on individual risks, with little consideration of risks that cut across different businesses or tax types, and stopping cases where the business was insolvent when further examination would show the trade had continued in a phoenixed business. HMRC's review found that the results secured by HMRC's Individual and Small Business compliance directorate were small compared with the concerns raised. As a result of the review HMRC made changes to how it manages fraud and evasion, including improved guidance and ensuring greater referral of casework to specialist teams, such as those specialising in fraud and insolvencies (paragraph 3.4).

21 The Insolvency Service disqualifies very few company directors specifically for phoenixism. It disqualified 6,274 directors between 2018-19 and 2023-24; only seven of these were for phoenixism. The Insolvency Service told us that phoenixism is defined very precisely, requires a high burden of proof, and in many cases may be less serious than other forms of misconduct identified. Other company directors HMRC has referred to the Insolvency Service (which totalled 200 in 2023-24) may also have phoenixed but were disqualified for different reasons. Neither organisation knows how many this is likely to be. The Insolvency Service told us it is reviewing how it measures its performance in tackling phoenixism (paragraphs 3.20 to 3.21).

Conclusion on value for money

22 Tax evasion costs the UK significant sums each year in lost tax revenue. HMRC has had success in raising more tax from online retail by making online marketplaces liable for the VAT on sales by overseas retailers, which generated more than HMRC expected. However, significant weaknesses remain in government systems which tax evaders can easily exploit, most notably around company registrations and the ability of overseas businesses to falsely represent themselves as UK-established.

23 Tax evasion has been growing among small businesses, and HMRC has so far lacked an effective strategic response. There are good examples of localised campaigns targeting some retailers, but HMRC missed earlier opportunities to tackle others, potentially allowing their market share to grow. HMRC's assessment of risks has given too little emphasis to widely used methods of evasion such as sales suppression and phoenixism, despite identifying that they were large and potentially growing. This means HMRC may not prioritise the most effective compliance interventions. It has also not used some new powers to tackle tax evasion. While these remain untested, they will offer less deterrence.

24 Tackling tax evasion is not a straightforward task, and with finite resources HMRC must work with the rest of government and other stakeholders to find the most cost-effective way to reduce evasion. HMRC's overarching strategy to tackle non-compliance by preventing it from occurring is sensible, but it has not followed through on this principle sufficiently for tax evasion. Real opportunities exist for HMRC to work more systematically across government to reduce evasion. It does not measure its overall performance in responding to tax evasion, but the examples we have seen suggest high returns. The likelihood is that tighter controls and more compliance work could raise significant sums and would be cost-effective and improve value for money.

Recommendations

On setting a clear strategic approach

a **HMRC should demonstrate it has a sufficient strategic focus to tackling tax evasion in key areas of risk.** This should include:

- regularly setting out how it is bearing down on tax evasion and other forms of deliberate non-compliance in line with its strategy, including an assessment of the effectiveness of preventative controls and how it is holding tax evaders responsible for deliberate evasion, rather than general non-compliance; and
- further developing how it analyses, measures and reports its performance and outcomes in tackling evasion, such as the number of penalties it issues for tax evasion and the associated compliance yield.

b **HMRC should take a leadership role in working with other relevant parts of government to develop a shared understanding of the drivers of tax evasion and a more joined-up approach to tackling it.** This should include considering inter-dependencies between tax evasion and wider risks and controls that sit elsewhere in government.

c **HMRC should work with relevant partners in government to assess what end-to-end system across government would be most efficient and effective in tackling tax evasion by businesses. HMRC should work with Companies House and the Insolvency Service, and each should assess whether it has the resources and capabilities to prevent, detect and respond to tax evasion cost-effectively.** This should include whether relevant teams have the capacity and expertise to identify whether there is deliberate evasion, and whether enforcement action is likely to maintain a credible deterrent effect.

On developing effective controls to prevent evasion

d **HMRC and Companies House should ensure they work together to develop and implement further improvements to the way that businesses register as a company and register for corporation tax and VAT.** This should include considering additional powers for Companies House to verify addresses; which organisation is best placed to manage relevant controls; the resources and capabilities needed; and any wider benefits and risks of such changes.

e **HMRC should work with key stakeholders to ensure the arrangements making online marketplaces liable for VAT from overseas sellers are effective in preventing evasion, and explore areas where closer working with HMRC could increase tax revenue cost-effectively.** This could involve working with online marketplaces to establish what reasonable steps they should take to determine whether sellers are UK-established based on their different risks and business models, and to identify what further support HMRC can provide through advice or data.

f **HMRC should tighten controls to prevent tax evasion. As part of this, it should understand the effectiveness of controls adopted in other countries and assess the appropriateness, feasibility and potential costs and benefits of introducing similar controls in the UK.** This could include:

- routine verification of UK establishment for VAT registrations, including with reference to verified addresses or other data;
- transaction-based reporting, requiring businesses to regularly report transaction data; and
- mandatory use of electronic cash registers.

On responding to tax evasion

g **HMRC should assess the risk posed by online marketing of services to enable tax evasion and develop an appropriate response.** This should include working with online platforms to explore opportunities to address the risks, and considering feasibility of working with overseas authorities.

h **HMRC and the Insolvency Service should work together to set out how they will tackle phoenixism and monitor the effectiveness of their work.** This should include determining a shared definition and understanding of phoenixism and barriers to enforcement action and, where relevant, engaging with other relevant public bodies and local authorities.

i **HMRC should develop a systematic way to identify and share common lessons from evaluations across its compliance projects and feed this into its plans to tackle evasion.** It should use this approach to embed a culture of learning and continuous improvement.

j **HMRC should evaluate the extent to which it is using the range of investigatory and enforcement powers it has for tackling tax evasion, establish what barriers it faces to using specific powers, and identify whether there are any gaps that limit the actions it can take.** In relation to the areas on which this study focused, this should include HMRC's powers to:

- investigate the use and supply of ESS technology;
- direct traders based overseas to appoint a VAT representative in the UK; and
- verify UK establishment for VAT registrations.