

Cashless, or not?

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Matthew Taylor has delivered a [disappointing report on employment](#) in the gig economy. It was so disappointing that much of the talk flowing from it was on his suggestion that we should tackle the cash economy, which appeared to me to be an entirely different issue little related to the so called gig issue, where big business and no cash is involved.

I broadcast on the issue yesterday on LBC, and for much of the day was scheduled to be on Radio 4, but like everyone else they had rather lost interest in such a damp squib of a report by the time the evening came so that one went by the wayside. But the suggestion Taylor made for a cashless economy to beat tax abuse seems to be rumbling even if the rest of the report is already filed, never again to see the light of day.

There are three issues about cash and tax abuse. The first is whether or not this is a big issue in tax abuse.

The second is the scale of that abuse and what might be eliminated by going cashless.

The third is whether getting rid of cash will solve the tax abuse. I will deal with them in turn.

On the issue of cash and tax abuse, of course the two are related. Cash does make it easier to hide income; there can be no argument about that. But there are a number of things to consider. The first is that cash really is just three per cent of money in circulation in the UK and it has to revolve a great many times if its illicit use is going to be greater than illicit activity through bank accounts as a result. In fact, that would clearly be impossible. And second, what that makes clear is that cash cannot be the big issue in tax abuse. It is an issue, indisputably. But not the big issue.

Second, what is the scale of the abuse? HMRC [say that tax evasion and the hidden economy costs the UK £11.4 billion a year](#), or about one third of the tax gap. They define the hidden economy as occasions where an entire source of income is not declared and tax evasion as occasions where a declared net source of income is

deliberately understated. For some reason only one of these sources was being quoted in the media yesterday; I have no idea why. But what is apparent that not all of either can be because of cash. That must be obvious. Evasion is entirely possible in the banked economy, and is. After all, if 10% of VAT is not paid, and HMRC agree that is the case, then very clearly banked transactions have to be involved. That is why I argued [when I last estimated tax evasion of the type being discussed that it exceeded £40 billion a year](#). I think this a more realistic estimate by far than that of HMRC for reasons noted here, but it is, of course, still an estimate. What it makes clear, however, is that going cashless would not eliminate this problem. It is obvious that it is much bigger than cash, and that in the UK the complete failure of the government to regulate companies is a much bigger issue.

So, third, will getting rid of cash get rid of the issue? Of course it won't, is the obvious answer. That shows a gullibility that is rather surprising and an assumption that banked money will always be known to HMRC, which is candidly naive at best. When anyone in the UK [can form a company for a few pounds, run it and make no declaration of money owing and then have the state strike that company off the register permanently, without consequence, when they fail to file accounts](#), cash is very obviously not the big evasion and the failure of state regulation is, as we have seen too often of late. The discussion of cash is just a distraction, and a very bad one at that.

But are there steps to be taken here anyway? As I said on LBC, the answer to that is that of course there are. Start with the abolition of the £50 note for which I can think of no useful function in our economy.

Then move on to the £20 note.

Then prevent anyone banking more than £500 in an account without consenting to HMRC being advised: the current £10,000 AML limit for notifications is far too high.

And after that? Just give it time: cash is dying anyway.

But in the meantime, tackle company abuse and un-notified business bank accounts. That is where the abuse is. [Some answers are in section four onwards in this Bill, which I wrote](#). But no one wants to tackle such fundamental reforms and instead we get meaningless discussion on abolishing cash, which will not achieve a great deal at all. It really is time we got on with the big stuff.