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**Research Briefing**
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# Economic Crime (Anti-Money Laundering) Levy

## 1 Summary

In the Autumn 2021 Budget the Government announced it would introduce a new levy to raise approximately £100 million per year to help fund anti-money laundering and economic crime reforms.

Provision to establish the Economic Crime (Anti-Money Laundering) Levy is included in the Finance (No.2) Bill 2021-22 – specifically Part 3 of the Bill (Clauses 53-66).

## 2 Background

In July 2019 the Government and UK Finance (the trade association for the UK's banking and financial services sector) published the Economic Crime Plan, setting out a series of strategic priorities for combatting economic crime.[1] The Plan was a response to concerns that the UK's supervision of anti-money laundering should be strengthened, an issue that had been raised in a report by the Financial Action Task Force (the global money laundering and terrorist financing watchdog) in December 2018,[2] and in an inquiry on

1 HM Treasury/Home Office, Economic Crime plan 2019 to 2022, updated May 2021

2 FATF, The United Kingdom's measures to combat money laundering and terrorist financing, December 2018

economic crime completed by the Treasury Select Committee in March 2019.[3] In January 2020 Helena Wood, Associate Fellow at the Royal United Services Institute (RUSI), published an assessment of the Plan, arguing that the Government should deal "with the crucial issue on which the plan largely remains silent: the fundamental capacity and capability issues within the UK's operational response to economic crime … a significant policing budget is needed to match the policy ambition of the plan. Six months after its launch, this remains absent."[4]

In the 2020 Budget the Government announced plans to establish a new levy to be paid by firms subject to the Money Laundering Regulations to help fund action to tackle money laundering and ensure delivery of the reforms committed to in the Economic Crime Plan.[5] There was relatively little comment on this in reactions to the Budget, as commentators focused on the Government's response to the emerging Covid-19 pandemnic, although the Financial Times reported that campaigners concerned about the scale of money-laundering strongly welcomed the news.[6] A consultation on the design of the levy ran from July to October 2020, followed by a technical consultation on the draft legislation to establish the new levy.

Just prior to the Autumn 2021 Budget the Government published a summary of the responses it had received to its consultation on the design of the levy. Overall "many respondents agreed that an enhanced response to economic crime is needed and recognised that the levy could represent a core part of sustainably resourcing this":

> Respondents also considered that responsibility for tackling the threat posed by economic crime should be shared between the anti-money laundering (AML) regulated (i.e. the sector subject to the MLRs) and non-regulated sector, and be supplemented by additional government funding. However, some respondents had reservations about a new levy on the AML regulated sector. In part, because the relevant sectors had been affected by changes in the economics circumstances resulting from the pandemic. [7]

Further to this respondents were in "general agreement with the governments' proposed design principles":

3 Treasury Select Committee press notice, UK's fragmented anti-money laundering system needs re-ordering, warns Treasury Committee, 8 March 2019; Treasury Committee, Economic Crime - Anti-money laundering supervision and sanctions implementation, HC 2010, 8 March 2019.

4 Royal United Services Institute, Getting the Economic Crime Plan Done: Why Economic Crime Matters for Johnson's 'Global Britain', 13 January 2020. For further background see, Economic crime in the UK: a multi-billion pound problem, Commons Library briefing CBP9013, 26 November 2021.

5 Budget 2020, HC 121, March 2020 para 2.43

6 "Money laundering campaigners hail £100m 'economic crime' levy", Financial Times, 11 March 2020

7 HM Treasury, Economic Crime (Anti-Money Laundering) Levy: Response to the consultation, September 2021 para 1.9

> Of these, proportionality, predictability, simplicity, and cost-effectiveness were regarded as core principles to government should endeavour to reflect in the final possible as much as possible.[8]

Respondents expressed strong views that receipts from the levy should only fund initiatives aimed at tackling money laundering. The Government concurred with this view, noting that this aligned with "the government's proposal, at consultation, to use proceeds from the levy for this purpose." The paper went on to give some details of the process by which proceeds would be allocated:

> Funding allocations will be decided through the existing spending processes and structures. Existing public-private economic crime governance structures will provide an opportunity for industry to share their views on this with the government.
>
> Within government, we will ensure the monitoring of in year spending performance; to consider where any emerging underspends could be reallocated onto alternative high priority AML programmes; and to consider reallocation where unexpected and significant new risks have arisen.
>
> It is our intention to use all proceeds from the levy, after deducting collectors' costs, on AML related programmes. We will seek to reallocate underspends which may arise to alternative AML programmes within a financial year, however there may some limited instances in which this cannot be done in a efficient and value for money way. Should regular underspends emerge, we will revisit the total levy requirement and correct the rate appropriately.[9]

Over this period the Economic Crime Levy has not been the subject of debate in Parliament, though it was raised in one PQ in January 2021:

> **Lord Myners** : To ask Her Majesty's Government what plans they have to allocate further resources to monitor incidents of money laundering associated with trade finance involving (1) misleading invoices, (2) bills of lading, and (3) the role of banks and other finance specialists in this field.
>
> **Lord Agnew of Oulton** : The Government's ambitious Economic Crime Plan sets out the significant action we are taking – in conjunction with the private sector – to combat money laundering and other economic crimes. Many of the reforms committed to in the Plan will benefit efforts to tackle trade-based money laundering (TBML), which the 2020 National Risk Assessment on Money Laundering & Terrorist Financing assessed as a growing risk.

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8 op.cit. para 1.10

9 op.cit. para 4.12, para 4.18-20

> On TBML specifically, HMRC has established this threat as a priority illicit finance risk. HMRC's work includes reviewing current trade compliance procedures and identifying opportunities to enhance our risk detection capabilities.
>
> More widely, we are also investing more to tackle economic crime. The 2020 Spending Review announced an increase in the government's efforts to tackle economic crime by providing an additional £30.5 million in resource and £32.5 million in capital funding in 2021/22, including support for the National Economic Crime Centre (NECC) which coordinates law enforcement's response to money laundering.
>
> Further to this, we are also currently formulating our response to the Economic Crime Levy consultation. It will raise £100 million of additional funding per year to help fund reforms outlined in the Economic Crime Plan, including for the Suspicious Activity Reports reform programme and an uplift for the UK Financial Intelligence Unit. It will be an important source of funding for our ongoing action to tackle money laundering in all its forms.[10]

# 3 Autumn 2021 Budget and Finance (No.2) Bill 2021-22

The Chancellor presented the Autumn Budget and Spending Review 2021 on 27 October.[11] HM Treasury's Overview of Tax Legislation and Rates document, which is published alongside the Budget report, provides details of each tax policy measure announced in the Budget, and of previously announced measures that will be included in the forthcoming Finance Bill. This noted that the Bill would include provision to establish the Economic Crime (Anti-Money Laundering Levy:

> Following a consultation announced at Budget 2020, the government will legislate in Finance Bill 2021-22 to establish an Economic Crime (Anti-Money Laundering) Levy. On 21 September 2021, the government published draft legislation on the Economic Crime (Anti Money Laundering) Levy to raise approximately £100 million per annum to help fund anti-money laundering and economic crime reforms.
>
> Entities subject to the Money Laundering Regulations will pay the levy as a fixed fee based on the 'size' band they belong to, as determined by their UK revenue for the relevant accounting period: medium (more than £10.2 million but not more than £36 million); large (more than £36 million but not more than £1 billion); very large (more than £1 billion). Higher bands

10 PQ HL11827, 20 January 2021

11 HC Deb 27 October 2021 cc273-287

> will pay higher fees, whilst small entities (UK revenue for the relevant accounting period is less than £10.2 million) are fully exempt from the levy.
>
> HMRC, the Financial Conduct Authority, and the Gambling Commission will be responsible for the collection and management of the levy.
>
> In scope entities will first be charged the levy during the year 1 April 2022 to 31 March 2023. The first payments of the levy will only be due after that year ends. This means the first set of levy payments will not be made until the year 2023 to 2024 (running 1 April 2023 to 31 March 2024).[12]

It is estimated the Levy will raise £95m in 2022/23, rising to £100m per year for the next two years, and then £105m per year in the two years after that.[13]

In their assessment of the Budget costings and the degree of uncertainty associated with these estimates, the Office for Budget Resposibility assign this measure a 'medium-high' rating.[14]

Provision to establish the Economic Crime (Anti-Money Laundering) Levy is made by Part 3 (Clauses 53-66) of the Finance (No.2) Bill 2021-22. HMRC's impact assessment of the new charge gives an overview of these clauses:

> The clauses will:
>
> - set out that anti-money laundering (AML) regulated entities, as defined by The Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017, will be required to pay the levy if they are categorised as medium, large, or very large based on the amount of UK revenue reported in the relevant periods of account
> - outline that an entity is: medium sized if they have UK revenue between £10.2 million and £36 million; large sized if they have UK revenue between £36 million and £1 billion; and, very large if they have UK revenue above £1 billion. Relevant entities with less than £10.2 million UK revenue will be exempt. These are considered micro and small sized entities
> - revenue will be defined as turnover – as defined in the Companies Act 2006 – plus any other amounts (not included within turnover) which, in accordance with generally accepted accounting practice ("GAAP"), are recognised as revenue in the entity's profit and loss account or income statement. Set out that UK revenue is:

12 HMT, Overview of Tax Legislation & Rates, Octobr 2021 para 1.44. As this document notes, this measure was not discussed in the Budget report (see Table 2).

13 Autumn Budget and Spending Review 2021, HC 822, October 2021 p136 (Table 5.1 – item 47); HMT, Autumn Budget 2021 Policy Costings, October 2021 p45.

14 OBR, Economic and Fiscal Outlook, CP 545, October 2021 p205 (Table A.1 – item 47).017.

- for a UK resident entity, the entity's revenue after deducting so much of its revenue as, on a just and reasonable apportionment, is attributable to the activities of any permanent establishment of the entity in a territory outside the United Kingdom
- for a non-UK resident entity, the entity's UK revenue is so much of the entity's revenue as, on a just and reasonable apportionment, is attributable to activities of any permanent establishment of the entity in the United Kingdom

- establish the levy will be calculated and charged at entity level, and that partnerships will pay at partnership level
- establish the levy will be collected by HMRC, the Financial Conduct Authority (FCA) and the Gambling Commission – each body will collect for their existing AML-regulated populations, with HMRC also acting as levy collector for entities currently regulated by any of the 22 legal and accountancy Professional Body Supervisors
- establish the levy will be payable and reportable on an annual basis

The clauses will also provide Treasury with the power to make regulations to:

- make further provision about the assessment, payment and collection of the levy
- make provision about the enforcement of the levy.[15]

HMRC's impact assessment notes that the new levy is not anticpated to have an impact on individuals because "it only affects entities regulated for anti-money laundering (AML) purposes under the Money Laundering, Terrorist Financing and Transfer of Funds Regulation 2017 that are medium, large or very large in size based on their UK revenue" and that, "it is not expected that the levy fees will be passed onto consumers." The new levy is expected to impact an estimated 4,000 businesses:

> [These 4,000 businesses] … will need to self-declare their levy status (i.e. whether they are AML regulated, and their UK revenue during the period of accounts that ended in a said financial year) to their relevant collector, or be invoiced by their collector.
>
> The relevant collector (HMRC, the FCA or the Gambling Commission) for businesses will be the collector that already regulates/supervises them under AML regulations, so the majority of firms will have an existing relationship with their collecting body.

[15] HMRC, Economic Crime (Anti-Money Laundering) Levy, 27 October 2021

> The exception is c.450 firms who are regulated/supervised by the Professional Body Supervisors (PBSs), who will need to declare their status and make their levy payment to HMRC.[16]

HMRC's impact assessment goes on to state the Government will review the Economic Crime (Anti-Money Laundering) Levy by the end of 2027: "This would seek to take place after around three years of operation, and may consider matters such as whether the levy: is meeting its original policy objectives; should continue; should remain based on just the AML-regulated sector; and, is still being calculated and collected appropriately." [17]

Provision to establish the Economic Crime (Anti-Money Laundering) Levy is included in the Finance (No.2) Bill 2021-22, which was published on 4 November (specifically Clauses 53-66).

Following publication of the Bill the Chartered Institute of Taxation (CIOT) and the Association of Tax Technicians (ATT) published a joint submission on the levy; the executive summary is reproduced below:

> The CIOT and ATT strongly support the UK's drive to combat money laundering and terrorist financing and recognise that funding is required to ensure that there can be an effective policy in place to reduce levels of financial crime. We support the exemption of small firms from the levy and the decision to make HMRC the collection authority. We would not like to see either decision revisited.

> CIOT and ATT supervise some of our members for anti-money laundering purposes, but, despite frequent requests, we and they receive very little granular feedback on the impact their reports make. We believe better feedback and wider publicity around successes could help AML-regulated firms to see the value and importance of work in this area more clearly, keeping it at the forefront of their minds.[18]

The Bill received a Second Reading on 16 November, and the new levy was mentioned a few times.

Speaking for the Labour Party Abenda Oppong-Asare said the Opposition supported "the principle behind the new economic crime levy" and went on to ask for details of how its receipts would be spent, and if this would be enough "to implement the measures in the economic crime plan."[19] Speaking for the SNP Alison Thewliss also expressed support for the "broad principles" of the levy, but raised concerns about its implementation "because placing more of a burden on location of businesses might not exactly have the desired

16 ibid.

17 ibid.

18 CIOT/ATT, Economic Crime (Anti-Money Laundering) Levy: Clauses 53-66 (Part 3 of the Bill), 24 November 2021 (Executive Summary)

19 HC Deb 16 November 2021 c530

effect."[20] In response to these points Exchequer Secretary Helen Whately noted the levy followed a "series of steps to combat economic crime", and argued that it was "a proportionate measure, which will be paid by entities that are regulated for anti-money laundering purposes."[21]

Finally in October 2020 the Treasury Select Committee launched an inquiry on economic crime, to review the progress that has been made since their report published in March 2019.

To date the Committee had held four evidence sessions over 2021. The new levy has not featured very much in these sessions, although it was discussed on 8 July, when the Committee heard evidence from Helena Wood (Associate Fellow, RUSI Centre for Financial Crime and Security Studies), Duncan Hames (Director of Policy, Transparency International UK), and David Clarke (Chair, Fraud Advisory Panel).[22]

Answering a quesiton from Felicity Buchan, Helena Wood was concerned as to whether receipts from the levy would "be matched by a commensurate level of funding from the public purse, which I believe it should be":

> It is not enough to look purely to the private sector to fund this. While £100 million sounds a lot, it is not in terms of the scale of the problem that we have all pointed to this morning. We are going to have one of the most heavily contested spending reviews that we have ever seen and one that I doubt will be noted for its generosity. [23]

Duncan Hames noted that Transparency International had supported the new levy, adding, "I am not surprised that most of the respondents to the consultation were against it, because most of them were people who were going to be asked to pay for it, and no one likes paying essentially a new tax, but it needs to be paid for somehow."[24] Mr Hames also went on to argue that the substantial penalties that arose from enforcing the law should be chanelled back to fund the compliance effort, a point echoed by David Clarke: "we see [the levy] as a stealth tax on business. Whether it goes ahead or has been parked, it looks vague and our concern is that it does not seem to be costed … We have huge amounts taken from criminals. Could that go in to fund it?"[25]

In this context it is worth noting that in the Autumn Budget and Spending Review 2021 the Government announced extra funds for the Home Office to tackle money laundering and fraud: specifically, "new investment of £18 million in 2022-23 and £12 million in both 2023-24 and 2024-25 … alongside

20 op.cit. cc506-7
21 op.cit. c532
22 Treasury Committee, Oral evidence: Economic crime, HC 145, 8 July 2021
23 op.cit. Q209
24 op.cit. Q210
25 op.cit. Q211

the introduction of the Economic Crime (Anti-Money Laundering) Levy, which will provide additional funding from 2023-24."[26]

[26] Autumn Budget and Spending Review, HC 822, October 2021 para 4.19

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