

Sands, Peter; Weisman, Benjamin; Campbell, Haylea; Keatinge, Tom

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Limiting the Use of Cash for Big Purchases: Assessing the Case for Uniform Cash Thresholds

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Limiting the Use of Cash for Big Purchases: Assessing the Case for Uniform Cash Thresholds

HKS/RUSI Working Paper

Peter Sands, Mossavar- Rahmani Center for Business and Government,
Harvard Kennedy School

Ben Weisman, Mossavar- Rahmani Center for Business and
Government, Harvard Kennedy School

Haylea Campbell, Royal United Services Institute

Tom Keatinge, Royal United Services Institute

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The views expressed in this publication and any errors or omissions are solely the responsibility of the authors.

About the authors

Peter Sands is a Senior Fellow at the Mossavar-Rahmani Center for Business and Government, Harvard Kennedy School, where he focuses his research on topics related to financial markets and regulation, and the financing and economics of global health. From 2006 to 2015 he was Group CEO of Standard Chartered, and from 2002 to 2006, Group CFO. Prior to joining Standard Chartered, Peter was a Senior Partner at McKinsey. He has a BA in Politics, Philosophy and Economics from Oxford University and an MPA from Harvard Kennedy School.

Ben Weisman is a candidate for a joint MBA and MPP at Harvard Business School and Harvard Kennedy School. He is also a research associate at the Mossavar-Rahmani Center for Business and Government. Until 2015 he was a senior analyst on the Federal Reserve Bank of New York's international affairs and strategy team. He has also worked at Citi in the Strategic Intelligence Analysis Group. He has an A.B. in public and international affairs from Princeton University's Woodrow Wilson School.

Haylea Campbell is a Research Analyst at RUSI within the Centre for Financial Crime and Security Studies. Her research interests include the development of sanctions policy globally, interdisciplinary responses to financial crime and terrorist finance and the impact of CTF regimes on the non-profit sector. She has an LLM in International Law and Security from the University of Glasgow.

Tom Keatinge is Director of RUSI's Centre for Financial Crime and Security Studies. His research focuses on issues at the intersection of finance and security, including sanctions, terrorist financing, human and wildlife trafficking, and the role that public-private partnerships play in tackling these issues. Prior to joining RUSI in 2014, he was an investment banker at JP Morgan for 20 years. He has an MA in Intelligence and International Security from King's College London.

Executive Summary

For all the hype about electronic payment systems, cash remains by far the world's most popular mechanism. However, over the past year we have seen an intensification of the discussion about the role of cash in society. Cash has great advantages: it is familiar, simple to use and ubiquitously accepted. However, cash also has downsides. Because cash transactions leave no record, cash plays a critical role in money laundering, tax evasion and terrorist financing.

This debate generates strong feelings, to the extent that it is sometimes depicted as a "war on cash". Some decry moves to curtail cash usage as an unwarranted encroachment on individual liberty and a manifestation of an over-reaching state. Others see physical cash as a costly remnant of a pre-digital age that we should get rid of as soon as is feasible. Yet it is also possible to hold a position between these extremes: acknowledging the continued value of cash in modern society, whilst seeking ways to curb its misuse.

In 2016 we witnessed a number of policy initiatives aimed at curbing the illicit use of cash. For example, the ECB decided to stop issuing the €500 note due to concerns about its role in illicit finance. India implemented a radical "demonetisation" strategy, abolishing the 500 and 1000 rupee notes in an effort to tackle the scourge of "black money". Various governments promoted innovative digital payments systems to replace cash, accelerate financial inclusion and reduce benefit fraud.

One less dramatic innovation that has been gradually gaining favour in Europe and a few countries elsewhere is the notion of cash thresholds, legal limits on the size of transaction for which cash can be used. Proponents of cash thresholds see them as a way to constrain the worst abuses of cash for illegal purposes, while causing minimum inconvenience to legitimate users. The logic is that almost all legal usage of cash involves relatively small transaction values, while a high proportion of large value transactions conducted in cash are connected to money laundering, tax evasion, or some other illegal activity. Cash thresholds are therefore seen as a way of making cash less useful to criminals, without reducing its value to law-abiding citizens.

The purpose of this paper is to provide a critical assessment of the case for such cash thresholds, and also to evaluate whether such thresholds should be set at a uniform level across countries. This is a live policy debate within the EU. Some EU countries, such as France, Belgium and Italy, have already introduced cash thresholds, at levels varying between €1,000 and €15,000. In other EU countries, such as Germany, the idea has triggered fierce opposition. Thus far, the arguments for such legislation, at least at EU level, have been largely been framed within the broader objective of implementing a common counter terrorist financing strategy.¹ The arguments against have typically focused on the infringement of privacy and individual liberty and the belief that such thresholds are a step towards eliminating cash altogether. Yet there does not appear to have been much in the way of a considered assessment of the arguments for and against such thresholds looking more broadly

¹ European Commission, 'Communication for the Commission to the European Parliament and the Council on an Action Plan for strengthening the fight against terrorist financing' (February 2016), <<http://www.statewatch.org/news/2016/feb/eu-com-action-plan-terr-financing.pdf>> (herein referenced as The EU CTF Action Plan)

at the potential impact on tax evasion and financial crime, the possible disruption of legitimate economic activity, and taking account of considerations like individual privacy.

The goal of this paper is to provide such an assessment. Our approach has involved a combination of: an in-depth literature review of papers and reports from academics, governmental bodies, law-enforcement agencies, think-tanks and other non-governmental organisations; analyses of available data sources such as payment diary surveys; and interviews with policy experts in governments, central banks, law-enforcement agencies and academia.

We have structured the remainder of this paper in six parts to provide:

1. A summary of **the role of cash in financial crime**, as an enabler of tax evasion, corruption, terrorist finance and money laundering.
2. An outline of **the policy options to curtail the illicit use of cash**, to provide context for cash thresholds.
3. An overview of **the current status of cash thresholds in Europe**.
4. An overview of **the current status of cash thresholds elsewhere in the world**.
5. Our assessment of **the case for uniform cash thresholds**.
6. Our **conclusions and recommendations**.

Our **key conclusions** can be simply summarised:

- First, while there is very limited hard empirical evidence that cash thresholds are effective in deterring financial crime, **there is a robust underlying logic for why cash thresholds should have a beneficial impact in curbing the illicit use of cash**. Criminals like cash because it is so widely accepted, anonymous and virtually impossible to track. Cash thresholds make it harder for them to move large volumes of money into or out of the legal economy.
- Second, **cash thresholds are likely to have most impact on tax evasion and money-laundering connected to organised crime, but relatively limited direct impact on terrorist finance or petty crime**. Cash thresholds make it harder to avoid taxes on large value purchases. Cash-based tax evasion, through avoiding VAT or sales taxes and under-reporting profits, is the largest source of tax evasion in most countries. Cash thresholds also make it much harder and more expensive to launder the cash proceeds of organised crime. Criminals can break up large sums into many smaller transactions (known as “smurfing”), but this is more costly and slower. Cash thresholds would have limited direct impact on terrorist operations since these typically involve relatively low value financial transactions. However, to the extent that cash thresholds impede organised crime, such measures could help undermine the financing of terrorist organisations.
- **There appear to be very limited downsides to implementing cash thresholds in terms of the impact on legitimate economic activity or concerns about individual privacy**. The overwhelming majority of legitimate cash transactions are below the levels at which cash thresholds would be imposed. High value cash transactions which are not

motivated by some illegal purpose appear to be rare and only relevant to a very small, wealthy proportion of the population. Privacy concerns, while legitimate, seem of less relevance to high value transactions, since a large proportion of transactions of this magnitude require some recording of personal details in any case.

- **Cash thresholds appear to be an attractive policy option for curtailing the illicit use of cash with limited adverse effects or implementation risks.** If set at a level well above the purchase price of most consumer durables, but low enough to capture the purchase of vehicles and luxury items, such thresholds should impact money-laundering and tax evasion with very little inconvenience to law abiding citizens.
- **There is a strong case for making such thresholds uniform in a common currency area, such as the Eurozone, but a much weaker case across countries with different currencies.** There is evidence that the imposition of cash thresholds in the specific Eurozone countries has driven money-laundering transactions into neighbouring countries.
- **It should be possible to generate better evidence of the impact of cash thresholds,** particularly if tracking measures are established as part of the threshold implementation. For example, analysis of VAT returns of sectors involved in high value transactions before and after the imposition of thresholds could provide insights into the impact on tax evasion and money laundering.

Based on these conclusions, **we recommend:**

- **The EU should pursue the introduction of a uniform cash threshold, at least within the Eurozone.**
- **Other countries should consider the introduction of cash thresholds as a complement to existing measures to combat financial crime.**
- **FATF should catalyse consideration of cash thresholds amongst its members, facilitating the transfer of best practices in implementation and impact analysis.**

The Role of Cash in Financial Crime

Despite the advances in electronic payments, cash continues to play an enormously important role in society in facilitating legitimate economic activity. It is still by far the dominant payment mechanism as measured by number of transactions, if not by value. However, there is also clear evidence that cash remains the vehicle of choice for criminal gangs laundering money domestically, regionally and internationally²; that cash payments are a primary mechanism of tax evasion and that cash plays a key role in terrorist finance. This should be no surprise. From a criminal perspective, cash offers an unbeatable set of attributes: as Sands et al and Rogoff describe in two 2016 publications, the fact that cash transactions are universally accepted, irreversible, and anonymous, while leaving no transaction record, makes them superior not only to all types of bank transactions, such as credit cards or wire transfers, but also to Bitcoin and gold.³ Figure 1 below compares the key attributes of payment options from a criminal’s perspective.

FIGURE 1

Attributes of different payment mechanisms from a criminal perspective

| | Payor/ payee anonymity | Lack of traceability | Ubiquity of acceptance | Immediacy of value transfer | Irreversibility of value transfer | Value constancy | Transaction cost/ spread | Physical convenience |
|-------------------------------|------------------------------|-------------------------|---|-----------------------------------|---|--------------------|--------------------------------|---|
| Bank transfer | No | No | Needs payor and payee to have bank accounts | Typically 1-3 days | No | High | Variable | Yes |
| Non bank wire transfer | No | No | Through agent | Increasingly real time | Sometimes | High | Variable | Yes |
| Bitcoin | Yes | No | Very limited | Instant | Yes | Extremely volatile | Extremely low | Yes |
| Gold | Yes | Yes | Limited | Yes | Yes | Volatile | High | Heavy and bulky |
| Diamonds | Yes | Yes | Very limited | Yes | Yes | Volatile | Very high | Very compact |
| Cash | Yes | Yes | Accepted everywhere | Yes | Yes | High | Low | Can be heavy and bulky for large values |

Source: Sands et al, “Making it Harder for the Bad Guys,” p. 10

² *Ibid*

³ P. Sands et al., ‘Making it Harder for the Bad Guys: The Case for Eliminating High Denomination Notes’, *M-RCBG Associate Working Paper Series* (No. 52), February 2016, <<https://www.hks.harvard.edu/centers/mrcbg/publications/awp/awp52>>; Rogoff, Kenneth. *The Curse of Cash*. Princeton University Press, 2016, <<http://press.princeton.edu/titles/10798.html>>

The advantages of cash from a criminal perspective are well described in Europol's report, 'Why is Cash still King?', which was published in 2015 and is arguably the most authoritative law enforcement literature on the topic of how criminal groups use cash to facilitate money laundering, both in Europe and globally.⁴ Europol's report succinctly explains the link between crime and cash, stating that 'cash in itself is not a method of laundering the proceeds of crime, nor is it an illegal commodity; rather it is an entirely legal facilitator which enables criminals to inject illegal proceeds into the legal economy with far fewer risks of detection than other systems.'⁵ The anonymity of cash and the fact that it leaves no transaction record are key to the widespread use of cash in money laundering. As Europol's most recent Serious and Organised Crime Threat Assessment states, cash smuggling is still identified as one of the main ways in which money is laundered in Europe.⁶

The Financial Action Task Force ("FATF") is the global standard-setter and international authority on the effective implementation of legal, regulatory and operational measures to tackle money laundering and counter terrorist financing. In its October 2015 report, 'Money Laundering Through the Physical Transportation of Cash', FATF acknowledges that cash is 'still the preferred method of settlement for goods and services for billions of people in the world today'.⁷ FATF notes that these transactions are for the most part legitimate, and that people like to use cash for many reasons, ranging from ease of use, universal acceptance, cultural considerations and weaknesses in banking infrastructure in some countries and regions.⁸

However, like Europol, FATF also highlights the role of cash in money laundering. FATF estimates the amount of money laundered annually through the smuggling of cash across international borders to be 'between hundreds of billions and a trillion US dollars per year.'⁹ To put this figure in perspective, the total value of cash outstanding in the world amounts to about US \$4 trillion.¹⁰ Thus, despite widespread legitimate use, a significant proportion of the world's physical cash, and particularly of high denomination bank notes, is being used for illicit purposes.

Much of the recent focus on illicit financial flows in Europe has focused on terrorist finance. In the "Communication for the Commission to the European Parliament and the Council on an Action Plan for strengthening the fight against terrorist financing," the European Commission notes the use of cash in terrorist finance. Cash plays a role in funding terrorist operations, where anonymity and the lack of a transaction record help terrorists evade detection. Cash also plays a role in organised crime activities—such as participation in drug and human trafficking—and secret donations that fund terrorist organisations.

⁴ Europol, 'Why is cash still king?' (2015), < <https://www.europol.europa.eu/publications-documents/why-cash-still-king-strategic-report-use-of-cash-criminal-groups-facilitator-for-money-laundering> > (herein referenced as Europol Cash Report)

⁵ *Ibid*, p. 9

⁶ Europol, 'European Union Serious and Organised Crime Threat Assessment' (March 2017), < https://www.europol.europa.eu/sites/default/files/documents/socta2017_0.pdf >

⁷ FATF, 'Money Laundering Through the Physical Transportation of Cash' (October 2015), p. 3, <<http://www.fatf-gafi.org/media/fatf/documents/reports/money-laundering-through-transportation-cash.pdf>>

⁸ *Ibid*

⁹ FATF, 'Money Laundering Through the Physical Transportation of Cash' (October 2015), p. 3, <<http://www.fatf-gafi.org/media/fatf/documents/reports/money-laundering-through-transportation-cash.pdf>>

¹⁰ *Ibid*, Executive Summary

Less prominent in the political debates about cash, but of huge relevance to governments' fiscal positions, is the role of cash in tax evasion. In most countries, cash-based tax evasion is a primary driver of the "tax gap" – the difference between the tax flows the tax system should theoretically yield versus what the government actually receives. For example, in the EU, lost tax revenues from VAT evasion amount to around €160bn per year.¹¹ Much of this is through customers paying for goods and services in cash, which is often either unreported or underreported. Evidence suggests that smaller businesses in both the U.S. and Europe, and even more in the developing world, underreport a significant proportion of their cash revenues to avoid VAT or sales taxes and to understate profits and thus reduce corporate tax.¹² Payment of wages in cash also enables employers to avoid social insurance charges and employees to avoid income tax.¹³ Unsurprisingly, when the U.S. Internal Revenue Service sought to improve tax compliance through more extensive auditing, they primarily targeted "self-employed workers who deal largely in cash," even when the overall focus of the crackdown was on higher-income individuals.¹⁴

Some would argue that the huge social benefits cash provides in facilitating everyday economic activities in the legitimate economy overwhelm the negatives of cash, in terms of its role in enabling illicit activities like money laundering, terrorist finance and tax evasion; and therefore that proposals to eliminate or even reduce the use of cash are misplaced. Yet this perspective misses a crucial difference between the legal and illegal uses of cash. While there are differences between countries, reflecting history and cultural traditions, payment diaries and surveys conducted by central banks indicate that law-abiding citizens almost always use cash for smaller transactions, increasingly switching to other payment mechanisms such as credit and debit cards, checks, and bank transfers as transaction values increase. In most countries, the majority of people would make large transactions (e.g., over €1000) using a non-cash payments instrument.¹⁵ Equally most people hold their savings, not in cash but in bank accounts or forms of mutual funds.

By contrast, criminals hold, move and transact large volumes in cash. Of course there is a lot of petty illegal activity conducted in cash, such as small bribes and the underreporting of tips but, unlike in the legal world, criminals also use cash for large transactions and to hoard and move their illicit gains. As countries continue to strengthen anti-money laundering (AML) policies for the banking sector, many criminals find it increasingly difficult to effectively launder ill-gotten proceeds from crime through traditional techniques. Purchases of high-value goods offer illicit actors the ability to integrate their cash into the legitimate economy without raising AML flags. This is why high denomination bank notes are disproportionately used for illegal activities and why a significant share of large cash transactions are likely to be connected to illicit activity.

¹¹ European Commission, 'Study and Reports on the VAT Gap in the EU-28 Member States: 2016 Final Report' (23 August 2016), p. 8, <https://ec.europa.eu/taxation_customs/sites/taxation/files/2016-09_vat-gap-report_final.pdf>

¹² See, e.g.: Susan Morse, Stewart Karlinsky, and Joseph Bankman, "Cash Businesses and Tax Evasion," *Stanford Law & Policy Review* 20:1 (2009), <<https://law.stanford.edu/wp-content/uploads/sites/default/files/publication/259083/doc/slpublic/Morse%20Bankman%20Karlinsky%20StanLPolyRev37.pdf>>

¹³ Abbi Kadir, Meryem Duygun Fethi, and Colin Williams, "Evaluating Tax Evasion in the European Union: a case study of the prevalence and character of 'envelope wage' payments," University of Leicester Department of Economics Working Paper No. 11/33 (June 2011), <<https://www.le.ac.uk/economics/research/RePEc/lec/leecon/dp11-33.pdf>>

¹⁴ Tom Herman and Rachel Emma Silverman, "IRS to Increase Audits Next Year," *Wall Street Journal* (23 November 2005), <<https://www.wsj.com/articles/SB113269901725904537>>

¹⁵ European Central Bank, 'Consumer cash usage: A cross-country comparison with payment diary survey data' (June 2014), <<https://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1685.pdf>>

Given this skew in usage patterns, it seems logical to focus efforts to curb the illicit use of cash on measures that make it harder to move, store and transact large volumes. Eliminating high denomination notes or imposing cash thresholds makes it harder for criminals to use cash to conceal large cash volumes whilst minimising the impact on the legitimate use of cash.

Policy Options to Curb the Illicit Use of Cash

To assess the case for cash thresholds, it makes sense to examine other policy options. Recent measures taken to curtail the illicit use of cash largely reflect this focus on large transactions and the movement and storage of large volumes of cash.

Eliminating High Denomination Notes

In May 2016, the European Central Bank (ECB) announced that the €500 note would no longer be issued from the end of 2018, due to ‘concerns that the banknote could facilitate illicit activities’.¹⁶ This impetus for this decision sprang from the intense desire within the EU to take decisive action on terrorist financing following the Paris attacks. The logic of ending the production of high denomination notes such as the €500 was set out in “Making it Harder for the Bad Guys: the case for Eliminating High Denomination Notes” by Sands et al. in February 2016 and was also strongly supported by Europol.¹⁷ The essence of the argument is that high denomination notes are increasingly rarely used for legitimate purposes, but heavily used by criminals since they enable large sums to be moved, stored and transacted covertly. Whilst not the highest value bank note in the world (for example, the SING\$ 5000 and CHF 1000 are more valuable) the €500 has by far the largest outstanding stock (worth over €300bn) and there is ample evidence of its use in drug trafficking and other crimes.

It is worth noting that the ECB has adopted a very gradual approach to removing the €500 note. Issuance will continue until 2018 and the €500 note will remain legal tender indefinitely. As yet there appear to be no plans to accelerate withdrawal from circulation of the existing stock once issuance ends. Such an approach minimises the risk of inconvenience to legitimate users of the €500 note, but also undermines the potentially disruptive impact on criminal business models.

Imposing Reporting Requirements on Bulk Cash Movements

Whilst relatively few countries have introduced cash thresholds, many have well established reporting requirements for cash transactions of certain types and values. Some countries have thresholds that apply only to transactions conducted with financial institutions, whereas others address high-value purchases from retailers and other businesses. Such reporting requirements have a dual purpose: first, they provide a record of such transactions to financial intelligence units and other law enforcement agencies; and second, by the very fact of requiring such a record, they make it more difficult for criminals to launder cash.

¹⁶ European Central Bank, ‘ECB ends issuance and production of EUR 500 note’ (4 May 2016), <<https://www.ecb.europa.eu/press/pr/date/2016/html/pr160504.en.html>>

¹⁷ Bloomberg, ‘Europol Director Sees Case for Scrapping High-Value Banknotes’ (8 February 2016), <<https://www.bloomberg.com/news/articles/2016-02-08/high-value-banknotes-should-be-binned-to-fight-crime-sands-says>>

There are well established mechanisms requiring the declaring and reporting of large cross-border flows of cash. In the Eurozone €10,000 or equivalent must be declared, and elsewhere in the world the threshold is typically US\$10,000. However, the efficacy of such reporting requirements can be questioned for two reasons: first, huge volumes of cross-border cash smuggling continues undeclared; and second, even where declarations are made, and reports filed, there is usually little action. This is partly because in some jurisdictions there is no legal basis for further investigation, and partly because of the sheer volume of such reports. In the US, for example, the Financial Crimes Enforcement Network (“FinCEN”) received almost 16 million reports on cash transactions over \$10,000 in 2006.¹⁸ Financial intelligence units like FinCEN struggle to process such volumes. Moreover, most financial intelligence units are designed to assist in criminal investigations, but not to conduct investigations themselves; in the case of FinCEN, reports are received and processed, but there is no capacity to investigate until they are approached by another law enforcement agency, like the FBI.¹⁹ In addition to the overwhelming volume of reports, there is the problem that there is nothing inherently illegal about using significant amounts of cash. Thus, were law enforcement and tax agencies to seek to build criminal cases on currency transaction reports, they would need far more information than is typically given on such a report.

Reporting requirements for large volume domestic cash transactions vary by jurisdiction. In some countries, companies using high volumes of cash are designated High Value Dealers (“HVD”) and are subject to specific reporting requirements. Such regulations vary in scope and efficacy. For example, in the UK, any business that accepts cash payments over €15,000 must register as a HVD and carry out anti money laundering checks. However, even the UK Government’s National Risk Assessment on Money Laundering and Terrorist Financing suggests the true number of businesses accepting payments of over €15,000 is higher than the number of businesses which have registered.²⁰ A November 2015 Transparency International report, entitled ‘Don’t Look Won’t Find’, examined the UK’s AML regime and specifically highlighted the luxury goods sector and HVDs as an area of weakness.²¹ The luxury goods sector submits a remarkably low number of Suspicious Activity Reports to authorities.²² In the EU, the forthcoming Fourth Anti-Money Laundering Directive²³ requires those receiving €10,000 or more to declare the transaction, with the logic that large cash payments are ‘highly vulnerable to money laundering and terrorist financing.’²⁴

Banks are also required to identify suspicious cash transactions, such as repeated large volume deposits or withdrawals, using sophisticated transaction surveillance systems to generate alerts. Where further investigation suggests an alerted transaction could be linked to money-laundering, the bank is obliged to file a Suspicious Transaction Report (“STR”). Whilst an STR can yield valuable

¹⁸ Committee on Financial Services, ‘Suspicious Activity and Currency Transaction Reports: Balancing Law Enforcement Utility and Regulatory Requirements’ (10 May 2007), <<https://www.gpo.gov/fdsys/pkg/CHRG-110hrg37207/html/CHRG-110hrg37207.htm>>

¹⁹ *Ibid*

²⁰ HM Government, National Risk Assessment on Money Laundering and Terrorist Financing (Oct 2015) p.59; see UK Money Laundering Regulations 2007, s. 3(12)

²¹ Transparency International, ‘Don’t Look Won’t Find: Weaknesses in the Supervision of the UK’s Anti-Money Laundering Rules’ (November 2015), < https://transparency.eu/wp-content/uploads/2016/11/TI_UK_Dont_Look_Wont_Find.pdf>

²² *Ibid*, p. 57

²³ Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Regulation (EU) No 648/2012 of the European Parliament and of the Council, and repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EC

²⁴ *Ibid*, (6)

intelligence, it is widely recognised that this system is fairly ineffective. There are two fundamental problems. First, the sheer volume of alerts and STRs overwhelms the capacity of law enforcement agencies. Most STRs are not investigated. Second, STRs are generated from the transaction data of individual banks, rather than from data pooled across banks. Sophisticated criminals disperse their transactions across multiple banks to avoid arousing suspicion. These issues are particularly acute with cash transactions since – unlike with transactions through bank accounts- it is impossible to piece together the trail of transactional activity.

Promoting Electronic Alternatives to Cash

Alongside measures to constrain the use of cash, many countries have actively supported the development of electronic alternatives, such as contactless cards, mobile payment systems, or electronic benefit disbursement schemes. By actively promoting alternatives to cash, governments both reduce the appeal of paper currency while also bolstering financial inclusion in order to minimise the potential negative effects of policies to reduce the value of cash to criminals. Many national and local governments now provide transfer payments to citizens exclusively through electronic means, with some, like Denmark, providing free bank accounts and debit cards in order to ensure low-income unbanked households are able to access their funds.

Sweden has arguably done more than any other country to encourage the adoption of electronic alternatives to cash. Sweden has one of the lowest levels of cash outstanding relative to GDP (at 1.8%, compared to 10.1 % for the Eurozone and 7.4% for the United States) and cash usage is declining as consumers and businesses increasingly use electronic alternatives for all types and sizes of payments.²⁵ The Riksbank, Sweden’s central bank, announced in November 2016 that it hopes to be the first major central bank in the world to launch its own digital currency, the *ekroner*.²⁶ After eliminating Sweden’s highest-denomination note (the 1,000 krona note, worth approximately €105), the government also smoothed the transition to electronic payments through measures like distributing card-reading devices to churches and homeless people to enable them to receive donations.²⁷ Denmark has similarly seen demand for cash decline, facilitated in part by the introduction of Mobile Pay, a mobile app that enables Danes to make payments to businesses or other individuals.²⁸

These developments are not limited to highly developed countries. In Kenya it has become the norm to make payments using mobile-money, with *The Economist* reporting in 2015 that more than two-thirds of the adult population use the system M-PESA, with an annual transaction volume equivalent to 25% of GDP.²⁹ The suite of demonetisation efforts in India has included measures to promote

²⁵ Kenneth Rogoff, *The Curse of Cash*, Princeton: Princeton University Press (2016).

²⁶ The Wall Street Journal, ‘Sweden’s Central Bank Considers Digital Currency’ (16 November 2016), <<https://www.wsj.com/articles/swedens-central-bank-considers-digital-currency-1479296711>>

²⁷ Kenneth Rogoff, *The Curse of Cash*, Princeton: Princeton University Press (2016).

²⁸ Ibid.

²⁹ The Economist, ‘Why does Kenya lead the world in mobile money?’ (2 March 2015), <<http://www.economist.com/blogs/economist-explains/2013/05/economist-explains-18>>

opening of bank accounts and has led to a surge in the use of various electronic payment platforms.³⁰

The logic here is ultimately to render cash unnecessary by ensuring that consumers and businesses have access to a wide range of flexible payment and value storage options with minimal transaction costs. Take-up of such systems varies enormously from country to country, reflecting differences in technology, culture and incentives. However, it is increasingly true that viable electronic alternatives to cash exist in almost all markets, including the developing world.

Pursuing a Multi-Pronged Approach

The most far-reaching of recent initiatives to stop the illicit use of cash and accelerate the switch to electronic payment methods has been India's "demonetisation" programme, launched in November 2016. This combined the abrupt withdrawal of the 500 and 1000 rupee notes as legal tender, with the imposition of cash reporting limits, cash thresholds and the accelerated roll out of electronic payment schemes. While it is too early to judge the full impact of these dramatic interventions to tackle "black money", it appears that they have triggered a significant shift towards electronic payment alternatives, but at considerable cost and disruption, particularly for the more impoverished who rely on the informal economy.³¹ Both the strategy and execution seem somewhat flawed. Removing India's highest value bank notes, the 500 and 1000 rupee notes, only to replace them with a 2000 rupee note seems illogical. The short timeframe for withdrawal plus limited availability of alternatives (other denominations or electronic), plus the lack of preparedness of the banks exacerbated the disruption.

Imposing Cash Thresholds

Set against these policy options, cash thresholds, the subject of this paper, look to be a relatively low risk, yet potentially effective option for constraining illicit cash usage. Cash thresholds are often seen as politically easier to implement than eliminating high denomination notes, and potentially less disruptive to legitimate cash usage, but more effective than simply imposing incremental reporting requirements on banks or HVDs. However, despite having been introduced in a few countries in Europe and elsewhere, cash thresholds are often overlooked as a policy option. In the remainder of this paper we describe the current status of cash thresholds in Europe and elsewhere in the world, then offer a considered assessment of their merits and of the case for adopting consistent thresholds across countries.

³⁰ Wade Shepard, "After Day 50: The Results from India's Demonetization Campaign Are In," *Forbes* (3 Jan 2017), <<https://www.forbes.com/sites/wadeshepard/2017/01/03/after-day-50-the-results-from-indias-demonetization-campaign-are-in/2/#fb7622a64e63>>

³¹ Royal United Services Institute, 'The Global War on Cash: Another Front in the Fight Against Corruption and Crime' (2 December 2016), <<https://rusi.org/commentary/global-war-cash-another-front-fight-against-corruption-and-crime>>

Current Status of Cash Thresholds in Europe

As Figure 2 shows, twelve EU member states have already implemented cash thresholds at various levels. In the wake of recent terrorist attacks there is increasing discussion about whether a uniform threshold should be imposed across the EU. Europol has recommended that all EU member states consider ‘the introduction of common cash payment thresholds’ in order to tackle the prevalence of money being laundered through the cash purchase of high value items.³² Europol cites the thresholds enacted by Spain, Italy, Greece and France as good practice.³³ In a similar vein, the EU Counter Terrorist Finance Action Plan envisages examining the case for EU-wide restrictions on cash payments above a certain amount.³⁴

FIGURE 2

| EU Member State | Cash Transaction Limit |
|-----------------|---|
| Belgium | EUR 3,000 |
| Bulgaria | 9,999 Leva (approx. EUR 5,110) |
| Croatia | EUR 15,000 |
| Czech Republic | CZK 350,000 (approx. EUR 14,000) |
| France | EUR 1,000 (Residents) EUR 10,000 (Non-Residents) |
| Greece | EUR 1,500 |
| Italy | EUR 2,999.99 |
| Poland | EUR 15,000 |
| Portugal | EUR 1,000 |
| Romania | RON 10,000 (approx. EUR 2,260) |
| Slovakia | EUR 15,000 |
| Spain | EUR 2,500 (Residents) EUR 15,000 (Non-Residents) |

Most recently the European Commission published a ‘Proposal for an EU initiative on restrictions on payments in cash’ on 23 January 2017. This initial impact assessment positions the matter as a potential legislative initiative that will inform Commission planning in 2018.³⁵ In setting out this proposal, the Commission argues that lack of harmonisation across EU member states allows criminals and terrorist financiers ‘to bypass the restrictions by moving to the Member States, which have not introduced any restrictions, while still conducting their illegal activities in the “stricter” Member State.’³⁶ Whilst acknowledging that the imposition of a uniform cash threshold would have a potentially disruptive impact on some sectors of the economy, the Commission believes that the potential negatives would be mitigated by the fact that cash usage across Europe is declining as more citizens use non-cash payment mechanisms more regularly. According to ECB figures for 2015, each EU inhabitant had an average of 1.5 payment cards and the number of card transactions rose

³² *Ibid*, 36

³³ The limits imposed by each of these states can be found in the table in Part B.

³⁴ EU CTF Action Plan

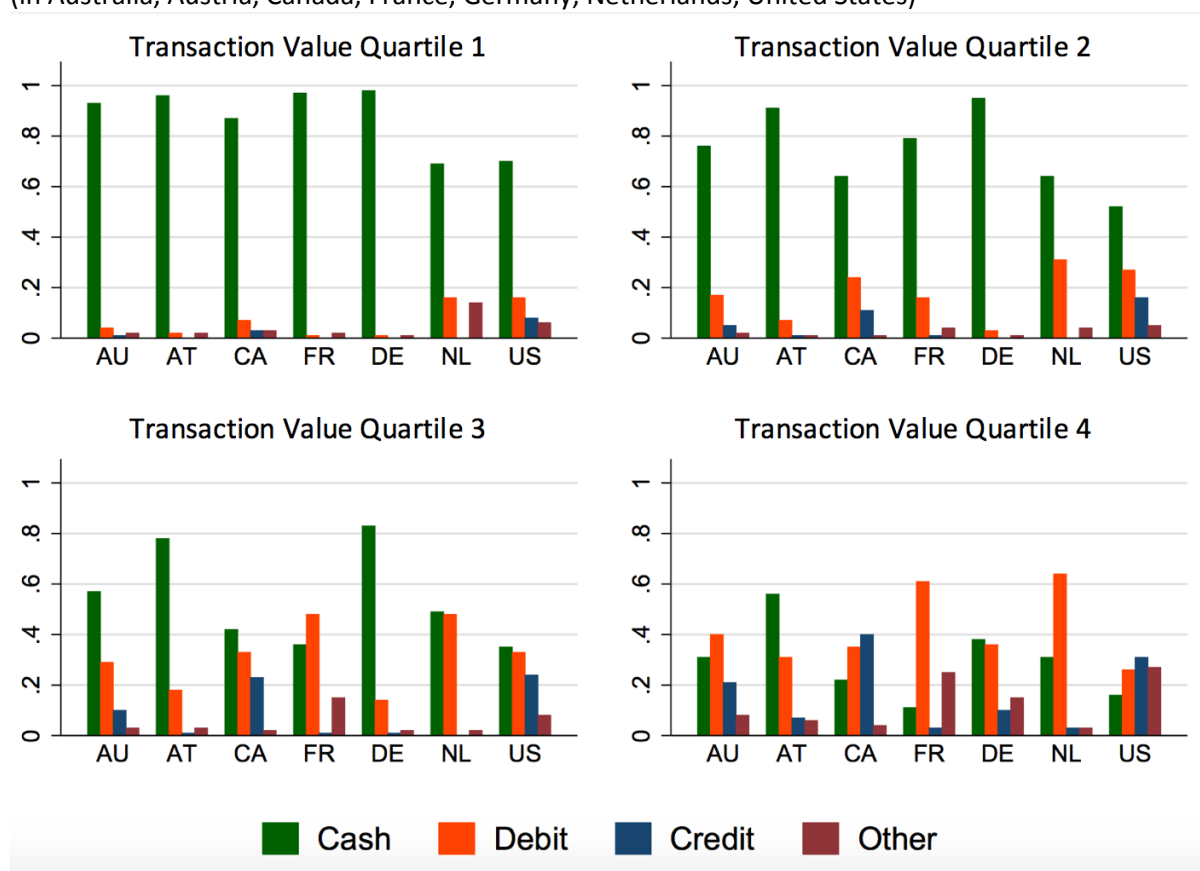
³⁵ European Commission, ‘Inception Impact Assessment: Proposal for an EU initiative on restrictions on payments in cash’ (23 January 2017), <http://ec.europa.eu/smart-regulation/roadmaps/docs/plan_2016_028_cash_restrictions_en.pdf>

³⁶ *Ibid*, p. 2

by 11.5% to 53 billion, with a total value of €2.6 trillion.³⁷ The Commission also contends that the impact on efforts to combat both money laundering and tax fraud would be positive.³⁸

However, any move towards uniform cash thresholds in the EU would need to overcome the sharp disparities between member states in usage and attitudes towards cash. These are clearly revealed in the cross-country comparison of payment diary survey data published by the ECB in June 2014.³⁹ Although there has been a ‘breath-taking transformation’ in the use of non-cash payment methods across Europe, cash remains heavily used in some countries, such as Austria and Germany. In these countries consumers prefer to use cash across all transaction value quartiles (from low value to high value payments) in stark contrast to countries like The Netherlands or France, as shown in Figure 3 below, which is taken from the ECB’s 2014 study on consumer cash usage :⁴⁰

Figure 3: Consumer Payment Choice by Transaction Value
(in Australia, Austria, Canada, France, Germany, Netherlands, United States)



Note: Quartiles represent the distribution of transaction values within each country, and thus cover different ranges of dollar/euro values for each country (e.g., for the United States, Quartile 1 includes transactions of US \$0 to \$12.30, Quartile 2 includes transactions of \$12.31 to \$22.70, Quartile 3 includes transactions of \$22.71 to \$39.80, and Quartile 4 includes transactions of more than \$39.80).

Source: ECB, “Consumer Cash Usage” (2014)

³⁷ European Central Bank, ‘Press Release: Payments statistics for 2015’ (26 September 2016), <<http://www.ecb.europa.eu/press/pdf/pis/pis2015.pdf>>

³⁸ *Ibid* (29), p.5

³⁹ European Central Bank, ‘Consumer cash usage: A cross-country comparison with payment diary survey data’ (June 2014), <<https://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1685.pdf>>

⁴⁰ *Ibid*, p. 47

There is significant divergence across EU member states on cash thresholds. In some EU countries, such as France, Belgium, Spain and The Netherlands, cash thresholds appear to be widely accepted and relatively uncontroversial, partly because there is widespread adoption of electronic payment instruments, particularly for larger transactions, and partly because of the consensus around the need to take action to counter illicit finance. In others, such as Germany, there is much more debate about them. In countries like the UK there has been scarcely any debate about the concept.

France

France has been a leader within the EU on many aspects of the debate on actions to constrain the illicit use of cash, with a particular focus on tackling terrorist finance. Following the January 2015 terrorist attack in Paris, France introduced a €1000 cash threshold, with the French Minister of Finance, Michel Sapin, asserting as the reason that 'low-cost terrorism feeds on fraud, money laundering and petty trafficking.'⁴¹ In order to minimise the potential harm to tourism, the threshold for foreign visitors was set at €10,000.⁴²

Belgium

Belgium first introduced a cash threshold, set at €15000, in January 2004. The level was reduced to €5000 in April 2012 and to €3000 in January 2014. However, legal enforcement only began in 2011, and before enforcement the ban was poorly observed. While there has been no overall assessment of impact, through their enforcement activities the Belgian authorities have seen many cases of attempts to hide the origin or destination of the money. This includes money laundering, including from the drug trade, tax fraud and trading in stolen jewels. Belgium has also witnessed some diversion of illicit activity to other countries.⁴³

Germany

Germany has seen perhaps the most vocal opposition to the introduction of cash thresholds. In February 2016, when the German Government proposed the introduction of a €5,000 limit, political parties across the spectrum and the leading German daily newspaper, *Bild*, protested against the move.⁴⁴ Experts within the country are sceptical of the benefits of such a threshold; with the economist Friedrich Schneider of Linz University telling *Die Zeit* newspaper that a ban on cash transactions would only reduce illegal labour by 2-3%.⁴⁵

⁴¹ Reuters, 'France steps up monitoring of cash payments to fight 'low-cost terrorism'' (18 March 2015), <<http://www.reuters.com/article/us-france-security-financing-idUSKBN0ME14720150318>>

⁴² *Ibid*

⁴³ In correspondence between the author and Christian Bourlet (Directeur, *Direction générale de l'inspection économique - Contrôles services financiers et prévention du blanchiment* – Belgium)

⁴⁴ International Compliance Association, 'All change on cash? Tackling money laundering through cash transaction limits in Germany' (6 May 2016), <<https://www.int-comp.org/insight/2016/may/06/all-change-on-cash-tackling-money-laundering-through-cash-transaction-limits-in-germany/>>

⁴⁵ The Guardian, 'German plan to impose limit on cash transactions met with fierce resistance' (8 February 2016), <<https://www.theguardian.com/world/2016/feb/08/german-plan-prohibit-large-5000-cash-transactions-fierce-resistance>>

More recently, the case for introducing cash thresholds has again arisen, with the German Customs Investigation Bureau (“GCIB”) revealing in a study that Germany has become a more popular destination for those seeking to launder money due to cash thresholds elsewhere in Europe.⁴⁶ Enforcing a cash threshold is supported by German Finance Minister, Wolfgang Schäuble, with a spokeswoman for the German finance minister stating that the recent GCIB study demonstrates that there is a ‘suction effect’.⁴⁷ Yet while Schäuble is in favour, the issue is far from uncontroversial with other members of his party, the Christian Democratic Union (CDU) and its sister party, the Christian Social Union (CSU). CSU financial policy expert Hans Michelbach has bristled at the idea of being ‘patronised by the government’ and has referred to the cash limit as ‘the stuff of the devil’.⁴⁸ Such language indicates the intense emotions informing the debate. Many in Germany see restrictions on the use of cash as unwarranted restrictions on individual liberty and the policy objective of shifting transactions to electronic means as dangerously threatening to individual liberty.

Italy

The political dynamics of cash thresholds in Italy offer a striking contrast. Prime Minister Mario Monti introduced a cash threshold of €1,000 in December 2011, ostensibly to curb tax evasion.⁴⁹ Monti wanted a ‘revolution’ in the way Italians thought about and conducted cash payments.

However, in 2015, then-Prime Minister Matteo Renzi introduced legislation to raise the threshold to €2,999, a move met with fierce resistance from anti-corruption campaigners in the country.⁵⁰ The reasons for this move were ostensibly to encourage the use of cash in the country in an attempt to spur spending during the country’s recession.⁵¹ This decision was highly controversial, even within his own government,⁵² as it was seen as emblematic of the government’s declining commitment to combatting tax evasion and the informal economy.⁵³

The cash threshold was increased despite indicative evidence⁵⁴ that the €1,000 limit was having a beneficial impact on curtailing the illicit use of cash within Italy, a country with a much larger underground economy than many of its EU counterparts (official estimates suggest the informal economy constitutes about 17% of total GDP.⁵⁵ Whilst the estimated size of the UK’s non-observed economy is 2.3% of GDP and France, 6.7% of GDP.)⁵⁶ Banca d’Italia analysis underscores the role of

⁴⁶ Handelsblatt Global, ‘An El Dorado for Money Launderers’ (17 February 2016), <<https://global.handelsblatt.com/finance/germany-an-eldorado-for-money-launderers-446094>>

⁴⁷ *Ibid*

⁴⁸ *Ibid*

⁴⁹ Bloomberg, ‘Italy’s Cap on Cash Payments’ (8 December 2011), <<https://www.bloomberg.com/news/articles/2011-12-08/italys-cap-on-cash-payments>>

⁵⁰ LSE EUROPP, ‘Raising limits on cash payments sends the wrong signal in Italy’s fight against corruption’ (26 November 2015), <<http://blogs.lse.ac.uk/europpblog/2015/11/26/wrong-signals-in-the-anti-corruption-fight-why-italy-must-not-raise-the-limit-for-cash-payments/>>

⁵¹ The Economist, ‘Show me the money’ (5 December 2015), <<http://www.economist.com/news/europe/21679490-matteo-renzi-wants-encourage-people-use-more-cash-bad-idea-show-me-money>>

⁵² The Paypers, ‘Italy: Renzi raises cap on cash use to EUR 3,000’ (15 October 2015), <<http://www.thepappers.com/payments-general/italy-renzi-raises-cap-on-cash-use-to-eur-3-000/761745-27>>

⁵³ *Ibid*

⁵⁴ See: Banca d’Italia, ‘An econometric analysis of Italian municipalities’ (2016), <https://uif.bancaditalia.it/pubblicazioni/quaderni/2016/quaderni-5-2016/QAR_Analisi_e_Studi_n_5_INTERNET.pdf>

⁵⁵ *Ibid*, p. 5

⁵⁶ OECD, ‘The Non-Observed Economy in the System of National Accounts’ (June 2014), <<https://www.oecd.org/std/na/Statistics%20Brief%2018.pdf>>

cash in organised crime and corruption and suggests that the cash threshold has had an impact on syndicate money laundering, reducing the usage of high denomination notes.⁵⁷

Switzerland

Outside the EU, in January 2016 Switzerland introduced a cash threshold of CHF 100,000 (approx. €94,000),⁵⁸ arguably too high to have any impact on combatting financial crime. This perhaps reflects Swiss ambivalence on the topic, which is also reflected in continued issuance of the CHF 1000 note.

Although there are persistent differences in cash usage, the divergence of attitudes towards cash thresholds across Europe appear more of a reflection of cultural and historical differences about the role of cash than hard facts about the nature of large value cash transactions.⁵⁹ Reflecting on the differences in spending habits of different nations, economist Charles Goodhart emphasises the need to take account of cultural differences, introducing measures like cash gradually and perhaps initially at a higher level than would be ideal, with a view towards reducing them over time.

Current Status of Cash Thresholds Elsewhere in the World

Outside Europe, there are relatively few examples of countries that have instituted cash transaction thresholds. Jamaica, Mexico, Uruguay, and India have mandated hard thresholds on the amount of cash that can be used in certain types of transactions. Israel, Russia, and Vietnam have proposed legislation to do the same. Although it is difficult to measure the impact of these measures, these cases—and the debate that has surrounded them—are instructive.

Jamaica

In 2013, Jamaica amended its Proceeds of Crime Act to prohibit cash transactions over 1,000,000 Jamaican dollars (approximately US \$8,000).⁶⁰ This limit was selected after a debate in the Parliament, during which the originally proposed J\$500,000 was increased (but not to the alternatively proposed J\$2,000,000) in order to accommodate the alleged day-to-day cash needs of many small and medium-size businesses.⁶¹ During the debate, the government argued for the need to create a paper trail in order to facilitate tax collection, as well as to reduce the ability of criminals to transact. Many in the opposition argued that this would force individuals and small businesses to absorb fees for a wide range of bank services, which had previously been avoided by using cash.⁶²

⁵⁷ In an interview with author (5 January 2017)

⁵⁸ The Swiss Federal Council, 'Entry into force of Federal Act for Implementing Revised FATF Recommendations of 2012' (29 April 2015), <<https://www.admin.ch/gov/en/start/documentation/media-releases.msg-id-57064.html>>

⁵⁹ In an interview with author (19 January 2017)

⁶⁰ The Jamaica Star, 'Legal eagle: There is a limit to cash transactions' (15 August 2016), <<http://jamaica-star.com/article/features/20160815/legal-eagle-there-limit-cash-transactions>>

⁶¹ Jamaica Information Service, 'House Approves Legislation to Place \$1 Million Limit on Cash Transactions' (17 October 2013), <<http://jis.gov.jm/house-approves-legislation-to-place-1-million-limit-on-cash-transactions/>>

⁶² The Jamaica Gleaner, 'J\$1 Million Is Enough Cash' (1 November 2013), <<http://jamaica-gleaner.com/gleaner/20131101/business/business91.html>>

Since this policy was adopted, there have been several cases of individuals prosecuted for violating the threshold, indicating that enforcement is possible, even in relatively less developed contexts.⁶³

Mexico

In 2013, Mexico introduced two thresholds for cash payments: 500,000 pesos (approximately US \$25,000) for real estate transactions, and 200,000 pesos (approximately US \$10,000) for automobiles, luxury goods, and lottery tickets.⁶⁴ The law also requires real estate brokers and other cash recipients to report the form of payment for transactions above the limit to the country's Specialized Unit in Financial Analysis. This law follows a 2010 limit on foreign exchange cash transactions, the effects of which were likely limited by both the relative ease with which cash moves over the U.S./Mexican border, as well as the relatively high level of cash usage in the Mexican economy (for example it is reported that it is 'routine to see all-cash purchases of high-end items such as real estate, airplanes, horse farms and expensive art'⁶⁵). While opposition has been limited, there has been some questioning of whether this limit is legal according to previously adopted Mexican law guaranteeing no restrictions on the use of the peso note.⁶⁶

The combination of the foreign cash thresholds (which keep more illicit cash outside of the formal banking sector) with the cash transaction threshold stands to reduce significantly the value of cash to illicit actors. Importantly, Mexican and U.S. officials see their ability to impede illegal cash flows across the border as very limited.⁶⁷ The 2013 restrictions, assuming they are enforced effectively, may have some significant impact on the ability of criminals to use illicit funds, particularly in the purchase of real estate. There is some anecdotal evidence that the law has affected the real estate market in Sinaloa, a state notorious for its affiliation with a major cartel, where real estate brokers, jewellery stores, and car dealerships all reported significant decreases in sales after the law's introduction in 2014 (although there was also a significant decline in the value of the peso that year).⁶⁸ However, given the relatively high threshold (approximately equal to per capita GDP for the non-real estate limit), there is likely still substantial activity taking place with illicit cash.

⁶³The Loop Jamaica, 'Men fined \$300,000 for exceeding cash transaction limit' (29 August 2015), <<http://www.loopjamaica.com/content/men-fined-300000-exceeding-cash-transaction-limit>>; The Jamaica Observer, 'Your banking movements may be criminal' (21 July 2015), <http://www.jamaicaobserver.com/columns/Your-banking-movements-may-be-criminal_19219751>

⁶⁴ Forbes, 'Large Cash Transactions Banned In Mexico' (17 October 2012), <<http://www.forbes.com/sites/jonmatonis/2012/10/17/large-cash-transactions-banned-in-mexico/#5ab534376631>>

⁶⁵ Los Angeles Times, 'Mexico limits dollar transactions' (15 June 2010), <<http://articles.latimes.com/2010/jun/15/world/la-fg-mexico-dollar-20100616>>

⁶⁶ Mondaq, 'The Challenges of Anti-Money Laundering Legislation In Mexico' (1 September 2015), <<http://www.mondaq.com/mexico/x/423984/Money+Laundering/Having+received+international+praise+for+their+success+in>>

⁶⁷ Washington Post, 'Mexico targets money laundering with plan to limit cash transactions' (26 August 2010), <<http://www.washingtonpost.com/wp-dyn/content/article/2010/08/26/AR2010082605355.html>>

⁶⁸ Debate, 'Ley antilavado impactó actividad inmobiliaria' (16 December 2014), <<http://www.debate.com.mx/economia/Ley-antilavado-impacto-actividad-inmobiliaria-20141216-0091.html>>

Uruguay

Uruguay introduced a US \$5,000 limit on cash transactions in 2015 as part of a Financial Inclusion Law designed to increase transparency, improve financial access, and strengthen government finances.⁶⁹ The law was accompanied by other measures to boost the adoption of cashless payments, including a requirement for both taxes and salaries to be paid electronically by 2017.⁷⁰ So far, these measures seem to have been successful at reducing cash transactions without cutting off citizens' access to payments.⁷¹ A side benefit appears to be an expected boost to bank lending stemming from an increase in peso deposits and electronic transaction volumes.⁷² There appears to be relatively little opposition to the limit, perhaps due to the accompanying measures which increase financial inclusion (as well as the belief that most high-value cash payments in Uruguay are conducted by visitors from neighboring countries, such as Argentinean real-estate purchasers). However, despite improvements to the anti-money laundering regime such as the cash limit, there are still serious concerns regarding the laundering of funds from transnational crime in Uruguay, illustrating the need for effective enforcement of such policies.⁷³

India

As part of the broader “demonetisation” strategy and following the recommendation of a Special Investigation Team appointed by the country’s Supreme Court, India’s Finance Minister, Arun Jaitley, proposed a ban on all cash transactions above 3 lakh (300,000 rupees, or approximately US \$4500) effective 1 April 2017.⁷⁴ India’s recent ‘demonetisation’ push has thus far focused on attempting to rid the country of ‘black money’ by invalidating older-series 500 and 1000 rupee (approximately US \$7.50 and US \$15, respectively) notes. Compared to the note invalidation, the proposed cash threshold has been received more favourably, in large part because it imposes fewer direct costs on low-income rural Indians, given that the limit is set at a relatively high level (well over twice per-capita GDP). However, many rural farmers are concerned that they will not be paid for their crops, since they often do not know or trust their buyers and checks do not provide the same assurance as

⁶⁹ Buenos Aires Herald, ‘Uruguay bans all cash payments over US\$ 5,000 as of next year’ (27 August 2014), <[http://www.buenosairesherald.com/article/168152/uruguay-bans-all-cash-payments-over-us\\$5000-as-of-next-year](http://www.buenosairesherald.com/article/168152/uruguay-bans-all-cash-payments-over-us$5000-as-of-next-year)>

⁷⁰ Uruguay: 2014 Article IV Consultation Staff Report
<https://books.google.com/books?id=kpd8CAAAQBAJ&pg=PA25&lpg=PA25&dq=uruguay+cash+transaction+limit&source=bl&ots=e39CpeV9YD&sig=1c8eAVPUTf9DzWq7Tqv19d0PYo&hl=en&sa=X&ved=0ahUKEwjr3Y30p6TSAhXn24MKHTx6CLQ4ChDoAQg1MAU#v=onepage&q=uruguay%20cash%20transaction%20limit&f=false>

⁷¹ The Financial Express, ‘Towards a less-cash society: Why informed users, stakeholders are a must’ (6 October 2016), <<http://www.financialexpress.com/opinion/1-towards-a-less-cash-society-why-informed-users-stakeholders-are-a-must/407784/>>

⁷² IMF, ‘Uruguay: Selected Issues Paper’ (February 2016), <<https://www.imf.org/external/pubs/ft/scr/2016/cr1663.pdf>>

⁷³ U.S. Department of State, ‘2016 International Narcotics Control Strategy Report – Uruguay’ (2016), <<https://www.state.gov/j/inl/rls/nrcrpt/2016/vol2/253439.htm>>

⁷⁴ The Times of India, ‘Ban on cash transaction over Rs 3 lakh good; cash holding limit could have been better: SIT’ (1 February 2017), <<http://timesofindia.indiatimes.com/india/ban-on-cash-transaction-over-rs-3-lakh-good-cash-holding-limit-could-have-been-better-sit/articleshow/56914336.cms>>

cash.⁷⁵ On the other hand, there is concern that the limit has been set at a level that is too high to be effective at targeting either tax evasion or laundering of ill-gotten funds.

Russia

In February 2017, Kremlin spokesman Dmitry Peskov indicated that Russia is likely to introduce cash thresholds, following the lead of other countries. Despite Deputy Prime Minister Igor Shuvalov's statement in January that such limits were 'pointless', senior Russian officials now seem supportive of the idea that a transaction limit could reduce tax evasion and money laundering.⁷⁶

Assessing the Case for Uniform Cash Thresholds

In this section we assess the case for imposing uniform cash thresholds by: first, assessing the case for cash thresholds; and second, the case for setting uniform thresholds across different countries. We then examine some of the counter-arguments made against cash thresholds.

The Case for Cash Thresholds

Whilst there is anecdotal evidence of the beneficial impact of cash thresholds in curtailing financial crime there is little in the way of hard data to prove their efficacy. This is not surprising, since cash transactions cannot be directly measured. We cannot directly record either the baseline of illicit transactions above the threshold level, nor the reduction through imposition of the threshold. However, the lack of compelling empirical evidence should not undermine the case for imposing such thresholds. We would make four points in favour of cash thresholds:

1) There appear to be very limited downsides to imposing such thresholds

- a. In all countries, the overwhelming majority of cash transactions are for small values, so cash thresholds will make very little difference to most individuals' use of cash on an every day basis. Looking at data from payment diaries and surveys across various countries, it becomes clear that while payments in cash dominate lower-value transactions, preference for cash decreases as transaction value increases.⁷⁷ In the ECB's 2008 payment survey, one of the only analyses that considers very high-value payments, there is a sharp drop-off in reported use of cash between purchases in the €200-1000 range (with 20% of respondents using cash, on average) and purchases of more than €10,000 (with 4% of respondents using cash, on average).⁷⁸ The ECB survey confirms the degree of variation between countries: while no French respondents report using cash for purchases of more than €10,000, 10% of

⁷⁵ The Indian Express, 'Union Budget 2017: Rs 3 lakh cash transaction limit will add to woes of horticulture, poultry sectors' (2 February 2017), <<http://indianexpress.com/article/business/budget/union-budget-2017-rs-3-lakh-cash-transaction-limit-will-add-to-woes-of-horticulture-poultry-sectors/>>

⁷⁶ Bloomberg, 'Kremlin Backs Limits on Cash Purchases, But Not Yet, Peskov Says' (21 February 2017), <https://www.bloomberg.com/politics/articles/2017-02-21/kremlin-backs-limits-on-cash-purchases-but-not-yet-peskov-says?cmpid=socialflow-twitter-business&utm_content=business&utm_campaign=socialflow-organic&utm_source=twitter&utm_medium=social>

⁷⁷ John Bagnall, David Bounie, Kim P. Huynh, Anneke Kosse, Tobias Schmidt, Scott Schuh, and Helmut Stix, "Consumer Cash Usage: A Cross-Country Comparison with Payment Survey Data." Federal Reserve Bank of Boston, Working Paper No. 14-4, 8 May 2014.

⁷⁸ European Central Bank, "The Use of Euro Banknotes: Results of Two Surveys among Households and Firms," *ECB Monthly Bulletin* (April 2011), <https://www.ecb.europa.eu/pub/pdf/other/art2_mb201104en_pp79-90en.pdf>

Austrians claim to use cash for these purchases (compared to 29% using cash for purchases in the €200-1000 range). While these numbers indicate that there is likely some legitimate high-value activity taking place in cash, the sharp drop-off illustrates that there is a relatively limited set of legitimate consumers opting to use cash for such large purchases. The ECB attributes some of this activity to limits on card usage imposed by some consumers' banks. Rogoff argues that these payments are likely encouraged by business owners in order to circumvent VAT payments; he also notes that in the nine years since these surveys, there has likely been further penetration of electronic payments in all these countries.⁷⁹

Figure 4: Survey data on cash usage at different value thresholds in Europe

| <i>Percentage of survey respondents always or often using cash for different kinds of purchases, by country</i> | | | | | | | | | |
|---|---------|----|----|----|----|----|----|----|----|
| | Average | BE | DE | ES | FR | IT | LU | NE | AT |
| Purchases less than €20 | 87 | 84 | 91 | 90 | 80 | 91 | 77 | 65 | 82 |
| Purchases between €30 and €100 | 55 | 48 | 69 | 64 | 15 | 77 | 27 | 20 | 60 |
| Purchases between €200 and €1000 | 20 | 18 | 21 | 30 | 3 | 31 | 10 | 8 | 29 |
| Purchases over €10,000 | 4 | 5 | 4 | 6 | 0 | 4 | 3 | 4 | 10 |
| Source: ECB, "The Use of Euro Banknotes" (2011) | | | | | | | | | |

- b. In almost all countries, convenient and cost-effective electronic payment alternatives are available for larger value payments. In the advanced economies, credit and debit cards, bank transfers and checks are readily available, certainly for those with the resources to be buying goods or services valued in the thousands of dollars or euros. Whilst payment surveys do not appear to capture this fact, because high value payments in cash are typically too rare to register, it is likely that a very small proportion of individuals are making high value payments in cash (and an even smaller proportion for legitimate reasons). Even in Germany and Austria, the countries in Europe most attached to cash, consumers report relatively low use of cash (between 30 and 40%) for transactions in the highest value quartile (of all transactions), compared to over 90% for transactions in the lowest two quartiles and around 80% for those in the third quartile.⁸⁰ The lower end of transaction value in the highest quartile ranges from US \$25.30 in Australia to US \$35 in France to US \$42.60 in Germany (in other words, 75% of all transactions fall below these amounts), a fraction of current or proposed cash thresholds. Moreover, even in Germany, consumers' perceived acceptance of non-cash payments also increases - from 28% in the first quartile to 87% in the highest quartile – which suggests that if forced to use non-cash

⁷⁹ Rogoff, *The Curse of Cash*.

⁸⁰ Bagnall et al., "Consumer Cash Usage."

payments for the much larger sums envisaged for cash thresholds, the vast majority of consumers would be content.

Combining these points the argument for there being a very limited downside looks compelling: large transactions (e.g. >€2000) represent a tiny proportion of overall transactional activity; few people use cash for such transactions and electronic alternatives are readily available.

- c. We also contend that these arguments hold force when considering business-to-business transactions, not merely consumer-to-business payments. The ECB's 2008 payment survey underscores the relative unimportance of cash for businesses' expenditures, with 38% of companies not paying any expenses in cash. Of those who report any cash expenditure, two-thirds report spending less than €1,000 per month in cash, and an additional 27% report spending between €1,000 and €10,000 in cash per month.⁸¹ Since these amounts are monthly totals that likely include many small transactions, the indication is that few businesses in Europe, if any, are making legitimate cash payments that would exceed the proposed thresholds.
- d. Whilst some argue against imposing such thresholds on the grounds that this will compromise individual privacy, since prohibiting the use of cash will make it more difficult to make large value purchases anonymously, many of the goods and services an individual buys over a figure such as €2,000 or €3,000 involve some kind of record or title in any case. It is worth considering what individuals purchase for a figure over this magnitude. Apart from very high-end luxury goods, such as fashion and jewellery, individual purchases over such a figure typically relate to the purchase of vehicles (e.g. cars, motorcycles), rent payments, property, flights and holidays, construction services or other personal services such as medical care. For most people, these are infrequent purchases and usually involve some kind of title, insurance or contract.

2) There is a strong argument that imposing such thresholds will disrupt money laundering and tax evasion.

- a. There is plenty of evidence from law enforcement agencies that criminals use large value cash purchases to launder money, buying consumer durables and property that are then resold legitimately and co-mingling illicit funds with legal income.⁸² Whilst cash thresholds do not prevent large volume money laundering, they do make it more costly and inefficient since criminals will have to disaggregate their funds into smaller amounts (known as "smurfing"). Cash thresholds will not deter criminals who are presumably already comfortable with breaking the law, but will deter retailers or other legitimate business who are unwitting accomplices to money-laundering (or willing to turn a blind eye but not to be actively involved). Law enforcement officials in countries that have imposed such thresholds believe they are having a positive impact. International law enforcement agencies such as Europol and FATF argue in favour.

⁸¹ European Central Bank, "The Use of Euro Banknotes."

⁸² See, e.g.: Europol, "Why is Cash Still King?"

- b. There is significant evidence of consumers, retailers and other suppliers using cash payments to avoid tax, particularly VAT and other sales taxes. Indeed the VAT cash gap for the EU amounts to roughly €160bn per year.⁸³ With VAT levels at around 20% in many EU countries, the incentives for such evasion are very powerful. Moreover, payments received in cash to avoid VAT will not be recorded in the recipient business' accounts and thus contribute to understating of profits for corporate tax purposes. The imposition of cash thresholds will not impact low level tax evasion of this kind, but will affect big ticket cash based tax evasion. In fact, analysis of VAT receipts for the sectors of the economy most directly affected by cash thresholds (e.g., luxury goods, construction, second-hand cars) before and after their imposition might yield useful insights into the impact of thresholds. We are not aware of any such analyses having been conducted, but believe this is an avenue worth pursuing. Indeed it would make sense to set up the data collection for such analyses as part of the implementation of thresholds. (We have set out our initial thinking on this approach in Appendix A).

3) Cash thresholds can complement other measures to curb the illicit use of cash.

- a. In some jurisdictions, cash thresholds may be politically easier to implement than the elimination of high denomination notes, particularly where these are seen to have historical or symbolical significance. In jurisdictions where both policies are pursued, cash thresholds will help accelerate the withdrawal from circulation of the outstanding stock.
- b. Cash thresholds may largely replace the onerous and ineffective reporting requirements imposed on HVDs. If large cash transactions are prohibited, then there is no longer a need to report on them.
- c. Cash thresholds will stimulate sectors providing high value goods and services to ensure ready availability of non-cash payment mechanisms. In most cases, these are already present, but removing the cash option will force banks and retailers to tackle any remaining impediments (such as ad valorem merchant pricing of credit card transactions, which is sometimes cited as a reason luxury good retailers prefer cash)
- d. Cash thresholds will force large value transactions onto electronic payment mechanisms, where they can be recorded and tracked. As a senior specialist in Financial Intelligence at Europol put it, cash thresholds will have an impact on combatting financial crime: either by stopping the transaction, or by enabling law enforcement to access records that trace the origin and beneficiary of funds.⁸⁴

4) Cash thresholds can be initially calibrated to minimise any perceived downside risk, then reduced over time

- a. Whilst there is no precise science to setting the threshold level, it makes sense to establish it at a value that is greater than most everyday purchases, including consumer durables

⁸³ European Commission, 'Study and Reports on the VAT Gap in the EU-28 Member States: 2016 Final Report' (23 August 2016), p. 8, <https://ec.europa.eu/taxation_customs/sites/taxation/files/2016-09_vat-gap-report_final.pdf>

⁸⁴ In correspondence with the authors (6 March 2017)

such as televisions and clothing, but low enough to capture vehicles, property and luxury goods. In advanced economies this will be in the low thousands of dollars and euros.

- b. Setting the initial threshold at a relatively high number, such as €3,000, will minimise any perceived risk of negative consequences (at the expense of being less effective in disrupting financial crime). If combined with the kind of impact analysis suggested in Appendix A, plus potentially the introduction of reporting requirements for cash payments at a lower level (e.g., €2000) an evidence base can be built to support reducing the threshold over time.

Taking these considerations together, we would argue that there is a strong case for imposing cash thresholds. However, we would make one caveat. While cash thresholds are likely to be effective in disrupting criminal money laundering and tax evasion, they are unlikely to have much of a direct impact on terrorist finance. Terrorist operations typically involve relatively small transactions that would not be affected by the threshold. Yet cash thresholds might have an indirect impact on the financing of terrorist organisations to the extent that these rely on organised crime and money laundering.

The Case for Setting Uniform Thresholds across Countries

While differentiated policies between countries always present a risk of regulatory arbitrage, with undesirable activity moving from more restrictive jurisdictions to those that are laxer, the Eurozone presents a unique challenge in the case of cash thresholds. Given the relative ease with which people and capital move between countries within the Eurozone, inconsistent cash thresholds have limited impact in reducing the value of cash to criminals (although potentially some impact on tax evasion). Criminals looking to launder cash by making large value cash purchases will simply take their euros to a country without a cash threshold. Hence the European Commission focus on uniform cash thresholds.

There is evidence that this concern is merited. According to a recent report of Germany's Customs Investigation Bureau obtained by *Handelsblatt*, "cash derived from illegal transactions is increasingly brought to Germany from other countries that have cash limits."⁸⁵ The study's findings were confirmed by the German Finance Ministry, which called it a "suction effect," as well as by the Bundesbank.⁸⁶ While the legitimate use of cash in Germany remains higher than in many other European countries, there is also extensive money laundering through high value cash payments. The Finance Ministry contends that illegally obtained cash is widely used to purchase houses, fine art, cars, and other luxuries.⁸⁷ In an effort to introduce a threshold that somewhat reduced the

⁸⁵ Frank Drost, "An El Dorado for Money Launderers." *Handelsblatt*, 17 February 2016. <<https://global.handelsblatt.com/finance/germany-an-eldorado-for-money-launderers-446094>>.

⁸⁶ Drost, "An El Dorado for Money Launderers."

⁸⁷ Jess McHugh, "Money Laundering Reaches \$113B in Germany as Organized Crime Flourishes." *International Business Times*. 21 April 2016. <http://www.ibtimes.com/money-laundering-reaches-113b-germany-organized-crime-flourishes-2357205>

opportunities for arbitrage, but acknowledged the opposition, the Finance Ministry proposed a threshold of €5,000. However, this was rejected.⁸⁸

From the other perspective, the Belgian authorities have seen evidence that the imposition of cash thresholds has displaced money laundering from Belgium to elsewhere.⁸⁹

Potential Counter-Arguments Against Cash Thresholds

A number of counter-arguments are made against the imposition of cash thresholds. These fall into four main categories: 1) by forcing consumers to use non-cash payments for some transactions, cash thresholds reduce consumer freedom and impinge on privacy; 2) cash thresholds will have very limited impact because criminals will continue to break the law; 3) there are certain groups of people who would be disproportionately harmed by cash thresholds; and 4) electronic payment methods can be more expensive than cash for certain types of large transaction.

In several countries, particularly Germany, Austria, and the United States, **opposition to cash thresholds is primarily based on the argument that they reduce both freedom and the right to privacy.** For example, in 2016, German MP Konstantin von Notz tweeted that “cash allows people to remain anonymous during day-to-day transactions. In a constitutional democracy, that is a freedom that has to be defended.”⁹⁰ We accept that this sentiment has some legitimacy, but transactions above €2,000 or €3,000 are far from “day to day.” Cash thresholds will not affect the vast bulk of transactions. Such thresholds will constrain the small number of consumers who would prefer to use cash and thus remain anonymous when making large purchases. However, for most legitimate high-value transactions complete privacy is not maintained, even if the payment is made in cash. In the cases of automobiles and real estate, for example, purchasers are required by law to transfer the title to their name, thereby eliminating anonymity. For many other high-value purchases, such as art and jewellery, consumers opt to insure the items involved, sacrificing privacy in pursuit of security. It seems hard to argue that there is an indisputable right to privacy when it comes to making purchases, and it seems reasonable for the government to put some thoughtfully calibrated limits on this anonymity when there is a compelling case for doing so. Reducing the ability of criminals to launder significant sums of illegally gains or stopping tax-evading businesses from concealing substantial revenues, would appear to be two such compelling reasons.

The second set of arguments against cash thresholds contends that they are not likely to be effective at reducing crime: because such measures target people who are already comfortable breaking the law, there is little reason to assume that they will not continue to do so in order to evade the threshold. Though legitimate, this line of argument ignores a major reason why thresholds are likely to be effective: many businesses unknowingly launder funds on behalf of criminals. If criminals are laundering money by purchasing high-value items from perfectly legitimate businesses (e.g., high-end jewellery stores and art dealers) using illicit cash, thresholds will have an impact by prohibiting these law-abiding businesses from accepting substantial sums of cash. For the retailer, it

⁸⁸ Jess McHugh, “Money Laundering Reaches \$113B in Germany as Organized Crime Flourishes.” *International Business Times*. 21 April 2016. <http://www.ibtimes.com/money-laundering-reaches-113b-germany-organized-crime-flourishes-2357205>

⁸⁹ In correspondence between the author and Christian Bourlet (Directeur, *Direction générale de l'inspection économique - Contrôles services financiers et prévention du blanchiment* – Belgium)

⁹⁰ Brendan de Beer, “Portugal to impose cash limit,” *The Portugal News Online*. 8 June 2016. <<http://theportugalnews.com/news/portugal-to-impose-cash-limit/38462>>.

is one thing to turn a blind eye to the possible origins of the cash used in an otherwise perfectly legitimate transaction, quite another to break a legally binding threshold by accepting the cash. Moreover, enforcement should not be too difficult: either regularly, on a sample basis, or on demand, firms could be asked to demonstrate corresponding electronic transactions for every customer transaction over the threshold level.

In the case of tax evasion, cash thresholds require tax-evading businesses to abide by a new law in addition to the tax codes they are already violating. While it is reasonable to question whether they will comply, there is reason to believe adhering to a cash threshold will be different from reporting cash income to tax authorities. Whereas cash revenues are notoriously difficult to monitor by authorities, it is relatively easy for law enforcement to observe violations of a cash threshold. Moreover, while in many countries it is commonly accepted practice for small businesses to underreport cash receipts, violating a criminal law of this kind would represent a more serious violation that many small businesses might be reticent to engage in.

The third type of argument involves the potential that **cash thresholds could have disproportionate impacts on several groups of people, notably low-income unbanked households and foreign tourists**. Yet unlike some policy options to curb the illicit use of cash, thresholds would appear to be relatively less burdensome on these groups. Low-income households are the least likely to be making high-value purchases, and thus should be relatively unaffected by this policy. If they are unbanked due to their income (rather than ideology), making a high-value purchase is a reasonable occasion for joining the formal banking sector. For lower-value transactions, or simply holding cash, thresholds have no impact. Foreign tourists will be subject to the same regulations regarding the amount of cash they are able to bring into and out of the country, as well as any limits on foreign exchange that may exist. While foreign tourists would be subject to the same threshold as local citizens, and therefore may be unable to make large payments in cash, we do not see this as likely to be a particularly serious limitation in advanced economies, given the prevalence of electronic payment options. In any case, it is possible to create a different threshold for non-residents as Spain and France have done. However, the risk with creating such a carve-out is that it creates a potential loophole to be exploited by organised crime.

The fourth set of arguments relates to the relative costs of making large transactions in cash. Here the contention is that in some circumstances it can be more expensive for the customer or retailer to use an electronic alternative, creating a perfectly legitimate reason for them to prefer to use cash. While there are considerable methodological difficulties in making like-for-like comparisons between the system-wide costs of cash versus electronic alternatives, a number of studies conclude that from the perspective of the system as a whole, cash can be more costly.⁹¹ However, it is true that

⁹¹ The literature is largely in agreement that the social costs of cash exceed those of other payment methods; some argue that private costs of cash may also be greater, particularly over certain value thresholds. See, e.g.: Olivier Denecker, Florent Istace, and Marc Niederkorn, "Forging a Path to Payments Digitization." McKinsey & Company (March 2013); Bhaskar Chakravorti and Benjamin D. Mazzotta, *The Cost of Cash in the United States*, The Institute for Business in the Global Context, Tufts University (September 2013); Carlos Arango and Varya Taylor, "Merchants' Cost of Accepting Means of Payment: Is Cash the Least Costly?" *Bank of Canada Review* (Winter 2008-2009); Fumiko Hayashi and William R. Keeton, "Measuring the Cost of Retail Payment Methods," *Federal Reserve Bank of Kansas City Economic Review* (Second Quarter 2012); David Humphrey, Magnus Willeson, Goren Bergendahl, and Ted Lindblom, "Benefits from a Changing Payment Technology in European Banking," *Journal of Banking and Finance* 30:6 (June 2006); Mats Bergman, Gabriela Guibourg, and Bjorn L. Segendorf, "The Costs of Paying – Private and Social Costs of Cash and Card Payments," *Riksbank Research Paper Series No. 212* (October 2007).

circumstances can arise where for a specific transaction; the actual or perceived costs could be lower for cash. The most commonly cited example is the ad valorem merchants fee for making credit card payments, which at typical levels of {2-3%} can represent a significant sum on a high value purchase. Jewelers sometimes cite this as a reason for preferring cash. Yet while less explicit, the full costs of receiving cash, including handling and counting, “shrinkage” and bank deposit fees are typically similar or higher. Yet there may be a case in some countries for the authorities to encourage cut-offs or tapering of ad valorem fees to remove this consideration.

Conclusions and Policy Recommendations

Cash thresholds represent a pragmatic way to tackle the illicit use of cash with very limited downsides. Our **key conclusions** can be simply summarised:

- While there is very limited hard empirical evidence that cash thresholds are effective in deterring financial crime, **there is a robust underlying logic for why cash thresholds should have a beneficial impact in curbing the illicit use of cash.** Criminals like cash because it is so widely accepted, anonymous and virtually impossible to track. Cash thresholds make it harder for them to move large volumes of money into or out of the legal economy through transactions with legitimate actors.
- **Cash thresholds are likely to have most impact on tax evasion and money-laundering connected to organised crime, but relatively limited direct impact on terrorist finance or petty crime.** Cash thresholds make it harder to avoid taxes on large value purchases. Cash-based tax evasion, through avoiding VAT or sales taxes and under-reporting profits, is the largest source of tax evasion in most countries. Cash thresholds also make it much harder and more expensive to launder the cash proceeds of organised crime. Criminals can break up large sum into many smaller transactions (known as “smurfing”), but this is slower and more expensive. Cash thresholds would have limited direct impact on terrorist operations since these typically involve relatively low value financial transactions. However, to the extent that cash thresholds impede organised crime, such measures could help undermine the financing of terrorist organisations. Petty crime and tax evasion would be largely unaffected by cash thresholds.
- **There appear to be very limited downsides to implementing cash thresholds in terms of the impact on legitimate economic activity or concerns about individual privacy.** The overwhelming majority of legitimate cash transactions are below the levels at which cash thresholds would be imposed. High value cash transactions which are not motivated by some illegal purpose appear to be rare and only relevant to a very small, wealthy proportion of the population. Privacy concerns, while legitimate, seem of less relevance to high value transactions, since a large proportion of transactions of this magnitude require some recording of personal details in any case.
- **Cash thresholds therefore appear to be an attractive policy option for curtailing the illicit use of cash with limited adverse effects or implementation risks.** If set at a level

well above the purchase price of most consumer durables, but low enough to capture the purchase of vehicles and luxury items, such thresholds should impact money-laundering and tax evasion with very little inconvenience to law abiding citizens.

- **There is a strong case for making such thresholds uniform in a common currency area, such as the Eurozone, but a much weaker case across countries with different currencies.** There is evidence that the imposition of cash thresholds in the specific Eurozone countries has driven money-laundering transactions into neighbouring countries. Where countries have different currencies, the case for harmonisation seems less compelling since arbitraging the differences would require cash to cash currency conversion.
- **It should be possible to generate better evidence of the impact of the implementation of cash thresholds,** particularly if the tracking measures are established as part of the threshold implementation. For example, analysis of VAT returns of sectors involved in high value transactions before and after the imposition of thresholds could reveal the impact on tax evasion and some indicators of impact on money laundering.

Based on these conclusions, **we recommend:**

- **The EU should pursue the introduction of a uniform cash threshold, at least within the Eurozone.**
- **Other countries should consider the introduction of cash thresholds as a complement to existing measures to combat financial crime.**
- **FATF should catalyse consideration of cash thresholds amongst its members, facilitating the transfer of best practices in implementation and impact analysis.**

Money laundering, terrorist finance and tax evasion impose huge costs on society. While by no means a "silver bullet", cash thresholds represent a practical and relatively low risk policy tool to help tackle this problem. Compared to other measures taken to tackle financial crime, such as the imposition of anti-money laundering regulations and penalties on banks, the establishment of Financial Intelligence Units, or the elimination of high denomination bank notes, cash thresholds have received much less policy attention. This needs changing. While we concede that there is very limited hard evidence of beneficial impacts, we believe cash thresholds are an attractive policy option, complementing other actions taken to curb financial crime, and with very limited downsides.

Appendix A

Strengthening the Case for Cash Thresholds with Data Collection

Although it is difficult—for obvious reasons—to see directly the effects of cash limits in publicly available data, it is possible to hypothesize what the data would reveal were cash thresholds to have their desired impact. Focusing specifically on data from tax agencies, using either VAT/sales tax reports and/or receipts, one should expect to be able to test three hypotheses: 1) for firms that accept high-value cash payments and underreport revenues to avoid taxes, a cash limit should increase tax receipts; and 2) for firms that accept high-value cash payments from illegitimate (or unknown) sources, a cash limit should lead to a decrease in tax receipts; and 3) for most firms and most transactions there should be no change in tax receipts (this would underline our argument that there should be minimal impact on *most* citizens' economic lives)

The first hypothesis focuses on firms that like to receive high-value cash payments to reduce their tax burden. They may encourage customers to pay in cash by offering some sort of incentive, which may be explicit or informal. Common cases include consumer-facing small businesses like residential contractors, auto repair shops, and small jewellery stores. By underreporting cash income, which is particularly common for small businesses⁹², such firms reduce the amount they pay in VAT or sales tax (and ultimately in corporate income tax). If a cash threshold is imposed, we should expect to see an increase in reported large transactions and an increase in VAT or sales tax.

The second hypothesis focuses on firms that allow for high-value cash payments from customers who wish to be anonymous or to disguise the origins of their money – in other words, firms that knowingly or unwittingly facilitate money-laundering. Some of these firms may overlap with those in the first category, but some may be entirely legitimate and fully reporting their income for tax purposes. Examples would include luxury car dealers, larger jewellery companies, art dealers, and in some jurisdictions, real estate brokers. Since illicit customers—many of whom are cash rich and unable to launder funds elsewhere—would no longer be able to pay for high-value items fully in cash, we should expect some decrease in large transactions and thus in VAT and sales tax. However, such firms might experience an increase in cash transactions under the threshold level.

The third hypothesis focuses on firms that receive very few high value purchases, or already receive most high value payments via electronic means. These firms should see relatively little change.

Our view is that it should be possible to construct sample-based analysis to complement overall statistics, to build a much richer picture of the impact of cash thresholds. Tax authorities typically have access to highly granular data reflecting the reported sales of individual businesses and sectors of the economy, and are therefore well-positioned to work with financial intelligence units before and after the implementation of a cash threshold to design and manage this analysis.

⁹² S. Morse, S. Karlinksy & J. Bankman, 'Cash Businesses and Tax Evasion', *Stanford Law & Policy Review* (Vol. 20:1 2009), <<https://law.stanford.edu/wp-content/uploads/sites/default/files/publication/259083/doc/slspublic/Morse%20Bankman%20Karlinksy%2020StanLPolyRe v37.pdf>>

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