Tax Research UK

Frequently asked questions

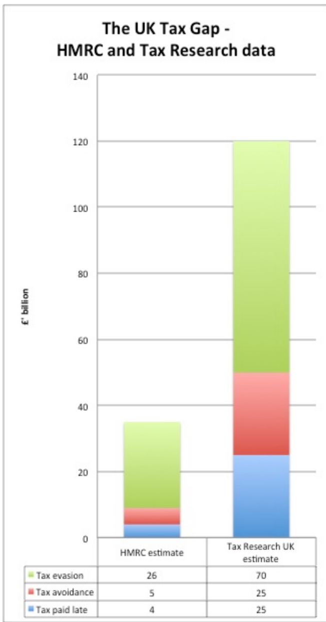
What's the Tax Gap?

1. **The tax gap** is the difference between the amount of tax the government should collect if everyone did what was required or expected of them by law and the amount of tax the government actually collects.

2. The tax gap **is made up of three parts**:
    - **tax evasion** – where people break the law and don't declare the tax they owe.
    - **tax avoidance** –where people and companies used loopholes in tax law to get round paying the tax expected of them.
    - **tax paid late** – where the cheque is not in the post even though it should be.

3. Our tax authority, **H M Revenue & Customs, says the tax gap was £35 billion** in the year to March 2010. According to HMRC £5 billion is tax avoidance and £4 billion non-payment (they do not count late payment). That leaves £26 billion of evasion.

4. Tax Research UK has challenged these figures. World Bank data suggests that tax evasion may be £70 billion a year in the UK. Tax avoidance is harder to estimate but Tax Research (working for the TUC) estimates it to be £25 billion a year whilst H M Revenue & Customs admit there is tax paid late of about £25 billion at any time. That means **Tax Research says the tax gap could be £120 billion**.



5. **The government deficit is expected to be £126 billion in the year 2011/12** – a figure almost exactly the same as the tax gap. It is forecast to fall to £92 billion in 2012/13 – almost exactly the total of tax avoidance and tax evasion in the UK.

6. Unfortunately almost nothing can be done about the tax gap because HMRC is committed to cutting its staff numbers from 97,000 staff in 2005 to about 67,000 in 2011 with this scheduled to fall to about 50,000 by 2015. This drive to save a relatively small sum in wage costs and to put tens of thousands out of work means **H M Revenue & Customs is sacrificing billions of tax revenue by refusing to employ the people needed to collect it. And that's a major cause of our current deficit**.

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Published February 2012, updated July 2012
TRUK FAQ1