Tax Research UK

Tax Briefing

What is the Tax Gap?

The Tax Gap

Tax Research agrees with the definition of the Tax Gap produced by the Large Business Services of HM Revenue & Customs in 2005, reproduced diagrammatically, below.

Tax Research UK therefore considers, as does HM Revenue & Customs, that tax avoidance is part of the tax gap. This perception is based on the fact that voluntary tax compliance and fair tax planning are both part of tax compliance which is defined as seeking to pay the right amount of tax (but no more) in the right place at the right time where right means that the economic substance of the transactions undertaken coincides with the place and form in which they are reported for taxation purposes.

The tax gap is defined as having three major components:

> 1. Tax lost to tax avoidance, which is defined here as seeking to minimise a tax bill without deliberate deception (which would be tax evasion or fraud) but contrary to the spirit of the law;
>
> 2. Tax lost to tax evasion, which is the illegal non-payment or under-payment of taxes, usually by making a false declaration or no declaration to tax authorities, resulting in legal penalties if the perpetrator is caught;
>
> 3. Non-payment of tax declared to be due, i.e. late payment or bad debt suffered by HM Revenue & Customs.

The first of these is also defined as avoidance by HM Revenue & Customs in their diagrammatic explanation of the tax gap shown on the next page.

The second and third are defined by HM Revenue & Customs as general non-compliance.

Together they are the tax gap.

Together it is currently estimated by Tax Research UK that they come to a sum of £120 billion.

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HM Revenue & Customs view of the Tax Gap