

500,000 missing people - Â£16 billion of lost tax

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Tax Research UK [issued a new report today](#) highlighting the fact that more than 500,000 ‘disappeared’ from the UK’s Register of Companies in the year to March 2010.

Run by the Department for Business, Innovation and Skills by an Executive Agency called Companies House, that Register is meant to record information about all companies incorporated in the UK. Each of those companies is required by law to file accounts and information on their management and ownership each year. As [the report](#) shows, hundreds of thousands of companies do not do this each year and instead of pursuing those companies to obtain the information that the law demands Companies House itself strikes off the register most of the companies dissolved in the UK each year, precisely because those companies have not submitted the data that they are meant to submit and which Companies House is meant to demand from them.

This ‘blind eye’ approach to regulation of companies in the UK — where the problem is swept from view by regulators deprived of the resources they need to — most especially people to uphold the law — is matched by the approach to company taxation adopted by HM Revenue & Customs. They demanded tax returns from fewer than 70% of all companies that existed in the UK in the year to March 2010. Just 45% of companies actually submitted tax returns due in that year to them by November 2010, and as a result just 33% of all UK companies in existence in that year paid tax. This is despite the fact that fewer than 20% of all companies are officially recorded as not trading, a figure in itself that is not subject to any checks. This too is the likely result of cuts in staffing at HM Revenue & Customs. As the report shows, these ratios of compliance by companies with their legal obligations have all declined in recent years.

This combination of under-resourced regulators imposes serious cost on the UK government according to the report. If, as the report suggests, more than 500,000 companies that are likely to be trading fail to submit the accounts, tax returns and most importantly, the tax payments required of them by law each year, as the report concludes is likely, then the loss to HM Treasury might be £16 billion a year. This is, of course, a major contribution to the [UK Tax Gap](#).

Richard Murphy, the director of Tax Research LLP and author of the report said:

"This report catalogues extraordinary failures in regulation by both Companies House and H M Revenue & Customs. It lays no blame on anyone at those organisations for these failures: it is clear that they do not have the resources they need in terms of staffing to undertake the duties demanded of them by parliament. H M Revenue & Customs has already lost more than 30,000 staff in the last few years and is going to lose 15,000 more by 2014. Companies House has just announced plans to reduce its staffing by 25% even though it is already very clearly failing to undertake the role demanded of it."

Richard Murphy added:

"The consequences of these failures are enormous. It is inevitable that significant amounts of tax are being lost to the Exchequer. In the meantime companies trading fraudulently undermine honest business in the UK and consumers are bound to be the subject of fraud by unscrupulous traders who will never account for their actions"

Anthea Lawson, head of the kleptocracy campaign at Global Witness, that supported the work, noted the international dimension to this regulatory failure, saying:

"This massive failure to know who is behind British-registered companies means that corrupt dictators and their families can hide assets here without us being any the wiser. There's little point in freezing potentially corrupt assets like Gaddafi's, when we have this huge loophole in our system that still allows every other corrupt official in the world the opportunity to hide their identity behind the nominee shareholders and directors of a British-registered company,

Caroline Lucas MP, leader of the Green Party, supported the work by asking parliamentary questions to secure information used in the report. She said:

"This report reveals the shocking complacency of HMRC and BIS, who seem to be taking an "out of sight, out of mind" approach to following up and collecting corporation tax from limited companies. This horrifying catalogue of failure to regulate properly means that the UK government is forgoing literally billions in taxation every year. At a time of savage cuts to public spending, it is outrageous that these enormous tax loop-holes remain available. The government must not be allowed to continue turning a blind eye to the need for better regulation. As a result of some of the questions I've put to Ministers, we now have an indication of the scale of the problem — now is the time for action. That's why this Report is so important, and why I shall be taking some first steps with my Private Members Bill on tax and financial transparency."

Kate Green, Labour MP for Stretford and Urmston

"This new report shows — shockingly — that all too often companies are able just to

“disappear” when it suits their directors, potentially owing billions in unpaid tax. It’s time the UK government got tough on the tax dodging that this report has revealed.”

TUC General Secretary Brendan Barber said:

“This is further evidence of a huge tax gap in the UK. Instead of unfair, deep and rapid spending cuts we need real determination from the government to raise the tax that the law currently requires.”

Mark Serwotka, General secretary of PCS, the union that represents the majority of H M Revenue & Customs’ and Companies House staff said:

"This sheds light on a large portion of the tax that we already know is being evaded, but it shouldn't fall to Tax Research to do it - the Treasury should be investigating these issues as a matter of urgency. Instead of cutting jobs at Companies House and HMRC, the government should be putting the proper resources in place to tackle what is clearly a massive problem which, if addressed, would change the debate about public spending overnight.

The report makes a series of recommendations to tackle this problem and ensure that companies that are trading meet their obligation to file accounts and pay their taxes. In particular it suggests that UK based banks be required to advise H M Revenue & Customs and Companies House of all companies that they operate bank accounts for and that these companies must be pursued vigorously to ensure they pay their taxes and file their accounts. It also suggests increased personal penalties for those who are directors of companies that do not comply, with banks being required to supply information on companies that refuse to cooperate so that their directors can be pursued to ensure that those trading fraudulently can be held to account

Ends

Notes to editors:

The report — entitled 500,000 Missing people: £16 billion of lost tax, is available here <http://www.taxresearch.org.uk/Documents/500000Final.pdf>

Companies House announced more than 250 job losses in March 2010 which will exacerbate this problem.

There is a programme of about 15,000 job losses at H M Revenue & Customs at present.

The report has been based on data from Companies House, H M Revenue & Customs, parliamentary answers to Caroline Lucas MP and Kate Green MP and research on specific data sets extracted from information on companies struck of the Register of Companies by Companies House in 2010.

Tax Research LLP and Richard Murphy received grant funding from the Task Force on Financial Integrity and Economic Development, based in Washington DC and the Joseph Rowntree Charitable Trust to undertake this research.