

Why do HMRC understate the tax gap?

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A copy of an H M Revenue & Customs internal publication called 'Economic Times and Tax Avoidance Behaviours' produced it seems by the HMRC Anti-Avoidance Group arrived in my post box the other day. I have no idea who sent it, but thank them anyway. It's the January / February edition, so it's pretty up to date.

It's also illuminating.

Take a simple example. The latest HMRC [estimate of the tax gap says](#) that the total lost to avoidance of NIC, Income Tax and capital gains tax is £1.4 billion. And yet para 15 of this report says that the estimated loss on self employed status issues alone might be £2 billion. Other estimates are limited, but there's £200 million on employee benefit trusts in para 28 and a note in para 39 that says, with apparent concern, that all the Big 4 are actively engaged in marketing salary sacrifice schemes. There's another reference to employee benefit trust losses in para 42, mentioning £100 million. And ample more planning arrangements about which concern is expressed but no mention of loss estimates arise.

Treasury ministers like to say I've overstated the tax gap. But reading this suggests they may well be understating it, based on HMRC internal evidence.

Maybe there's a quite reasonable explanation - but this document by the HMRC anti-avoidance group suggests that the figure is much bigger than the HMRC tax gap reports acknowledge - a point I have made for some time. And that seems to me to suggest that a little more circumspection by ministers may be appropriate. There are a number of ways of viewing this issue - even in HMRC it seems, and all alternatives I've seen so far suggest the gap is bigger than HMRC are suggesting.