

# Funding the Future

## HMRC's claim that the tax gap has fallen by £7bn - i...

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I now have details of the 2011 tax gap estimates, based on the tax year 2009-10.

The table looks like this:

**Table 1.1: Tax Gaps for HMRC administered taxes – 2008-09 and 2009-10 (£ billion)**

Tax	Component	Point estimates (£ billion) <sup>1,2,4</sup>		Percentage tax gap <sup>3</sup>	
		2008-09	2009-10	2008-09	2009-10
Indirect taxes <sup>5</sup>					
	Value Added Tax (VAT)	14.6	11.4	15.5%	13.8%
	Spirits duty	0.1	0.1	2%	3.4%
	Beer duty	0.4	0.6	10%	14%
	Cigarette duty	1.4	1.1	13%	10%
	Hand rolling tobacco duty	0.6	0.6	50%	46%
	Great Britain diesel duty	0.7	0.5	5%	4%
	Great Britain petrol duty <sup>6</sup>	0.0	0.0	0%	0%
	Northern Ireland diesel duty <sup>7</sup>	0.1	0.1	27%	12%
	Northern Ireland petrol duty <sup>6,7</sup>	0.0	-	16%	-
	Other indirect taxes <sup>8</sup>	1.0	0.8	7%	6.0%
Total indirect taxes		18.9	15.1	12.7%	10.9%
Direct taxes					
Income Tax, National Insurance Contributions, Capital Gains Tax	Inaccurate self assessment returns from individuals (excluding large partnerships <sup>9</sup> )	5.6	5.8		
	Business taxpayers	5.0	5.1		
	Non-business taxpayers	0.6	0.8		
	Inaccurate self assessment returns from large partnerships <sup>9</sup>	0.8	0.9		
	Inaccurate returns from small and medium-sized employers (PAYE) <sup>10</sup>	0.6	0.9		
	Inaccurate returns from large employers (PAYE)	2.0	2.0		
	Avoidance	1.4	1.5		
	Non-declaration of income and capital gains by individuals who do not receive returns	0.3	0.3		
	Ghosts <sup>11</sup>	1.3	1.3		
	Moonlighters <sup>12</sup>	1.8	1.8		
	Total	13.9	14.5	5.2%	5.8%
	Businesses managed by the Large Business Service	1.3	1.2		
	Avoidance	1.1	1.0		
	Technical issues	0.2	0.2		
	Large and complex businesses	0.9	0.9		
Small and medium-sized businesses	2.7	2.7			
Total	5.0	4.8	10.3%	11.7%	
Corporation Tax	Inheritance Tax	0.1	0.05		
	Stamp Duties <sup>13</sup>	0.8	0.5		
	Stamp Duty Land Tax	N/A	0.2		
	Shares Stamp Duty	N/A	0.3		
	Petroleum Revenue Tax	0.05	0.02		
	Total	0.9	0.6	6.5%	4.9%
Total direct taxes		19.8	19.8	6.0%	6.5%
Total tax gap		39	35	8.1%	7.9%

This is in itself curious because the previous year's table looked like this:

**Table 1.1: Tax Gaps for HMRC administered taxes – 2008-09 (£ billion)**

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Tax	Component <sup>1</sup>	Estimates (£ billion)		Percentage tax gap <sup>2</sup>
		Point <sup>3</sup>	Lower Upper	

Extraordinarily HMRC have claimed that the tax gap has improved by £7bn in a year. But that's not true. The tax gap has only improved by £4bn at best (£39bn to £35bn) - their own table say so. Candidly to claim that because they put their own prior calculation errors right means the tax gap closed by £7bn - as their own press release seems to imply by subtle use of language - is as a result blatantly untrue.

But that's not the limit of the gall of HMRC senior management. Read the detail and you realise that the reason why the VAT gap went down is in no small part due to the fall in the VAT rate matched by a fall in GDP.

VAT is paid a quarter late. Allowing for that the GDP fall in 2009/10 was 2.9%. And the VAT rate was 15% for most of that period for VAT payment to HMRC purposes. So given that the VAT gap is the difference between expected VAT paid and actual VAT paid we'd expect this gap to fall in cash terms by up to 14% for the falling VAT rate (but I'll allow for timing differences and only use 11%, generously) and by another near 3% for GDP fall. In combination taking the revised 2008/09 VAT gap estimate of £14.6bn as the base we'd expect a fall to near enough £12.6bn (you can argue a decimal point either way - the above is my generous estimate, i.e. favouring caution). So £2bn or more of the fall is due directly to Alistair Darling's VAT cut or declining GDP.

In that case the real fall is £2bn (£4bn real fall less this £2bn adjustment) at most.

Except, of course, the fall in GDP did not only apply to VAT - it applied to all other income as well. There was £24.4bn of gap relating to that in 2008/09. So a fall of at least £0.7bn of the resulting fall would result from the decline in GDP alone. Now we're down to an improvement in the gap using HMRC methodology of £1.3bn at best - and candidly that's in the range of statistical error.

Or to put it another way HMRC are simply not telling the truth on this issue.

They expect taxpayers to be honest, as do I.

But I demand an honest tax authority in exchange.

And their press releases on this issue are not honest.

It's a lousy precedent to set.