

# Why the tax gap matters - or why I appeared in court fo...

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I wrote the following at the request of the Brighton Evening Argus for publication after the close of the UK Uncut trial in that city, in which I appeared as an expert witness to explain the links between tax avoidance and the cuts agenda of this government.

I regret that the judge, sitting as a magistrate, did not accept that the link was close enough to justify the actions taken during peaceful protest by UK Uncut supporters: equally I am pleased he appeared to accept the link existed but was simply not sufficiently immediate in his view on this occasion (which does of course beg the question when it might be, but let's leave that aside) and as such five of the nine charged were found guilty of criminal damage. That he gave them conditional discharges for six months does also suggest how trifling he thought the absurd case brought against them to be.

But, back to the Argus article:

*Nine people from UK Uncut have been on trial in the last fortnight in Brighton for allegedly causing criminal damage during a protest in Brighton's Top Shop last December. The damage they're alleged to have caused was trivial and they admit they stuck themselves to the window of the store. The much more interesting issue is why they did it.*

*As a chartered accountant I appeared in court when asked to do so by their defence lawyer to explain just what the issues they were protesting about were. These are both complex in detail and relatively simple at the same time to explain.*

*Everyone knows that the UK is facing cuts at present and we are told they are inevitable. So benefits and pensions are being cut, school funding is down, hospitals are having budgets frozen, the arts and leisure are seeing cuts all over the place and the armed forces are having their numbers slashed. What I argue and what UK Uncut argue is that this is not as inevitable as it seems. There is, in fact, an alternative and it is one that the government is refusing to pursue.*

*That alternative is called 'closing the tax gap'. The tax gap is the difference between the amount of tax which the law suggests should be paid in the UK and the amount actually paid. There are three parts to the tax gap. The first is the tax that tax payers have admitted they owe but which they then do not settle on time or at all. This amounts, according to H M Revenue & Customs to about £25 billion at present. If we got this money in the country would not have to borrow so much so it's a big deal.*

*The second part of the tax gap is tax that's evaded. Tax evasion is a criminal activity. It's what happens when people don't declare their income to H M Revenue & Customs or when they claim expenses to offset against their income to which they are not entitled. Of the two the first is the most important. Estimates of the total sum evaded each year vary. H M Revenue & Customs estimate the sum to be approximately £35 billion a year but there's good reason to think that's a serious underestimate. I think it's £70 billion a year.*

*The third component of the tax gap is tax avoidance. This is the element that most people find hardest to understand. Tax avoidance is not the act of claiming the allowances that you are entitled to in law. So, for example, claiming your personal allowances is not tax avoidance. Nor is paying money into a pension fund, or saving in an ISA. Tax avoidance is instead seeking to get around the law so that less tax is paid than Parliament intended on the economic activity that a person undertakes.*

*This "getting round" the law can be done in a number of ways but the most common is to find loopholes in UK law or between UK law and the law of other countries. These can be complicated; a lot of it involves offshore tax havens, and because it's expensive to set up it's largely done by the wealthy and multinational corporations. I estimate it costs the UK £25bn a year, split between individuals and companies.*

*So the tax gap is, I estimate, up to £120 billion. In fairness I should note H M Revenue & Customs do not agree, but because of my work they have published their own estimates, which come to £60 billion at present - exactly half of what I suggest. It's curious to note in this context that 'benefit fraud' is just over £1 billion a year — but is the issue to which all attention is given.*

*Either way, and whoever's figure for the tax gap is closer, it's an enormous amount of money. My figure would pay for most of the NHS. The point is collecting even some of this money — again whoever's estimate is closer — would eliminate the need for a lot of cuts — hence the name of UK Uncut. They are saying, and I have said for a long time that if only we collected the money due from tax cheats and crooks then we would either need many fewer cuts or we would not need tax increases. And what I have shown, sometimes working with politicians like Caroline Lucas, is that the measures needed to collect some of this tax are relatively simple, are quick to enact and would work.*

*Nothing though would work better than having more people on the job of collecting the*

*tax owed to H M Revenue & Customs and yet extraordinarily at a time when the government needs every penny it can get in tax it is sacking tax staff as fast as it can. There were almost 100,000 HMRC staff in 2005: there will be 50,000 in 2015. Rarely has a policy designed to offer 'savings' been so misguided. It's like a company facing a cash flow problem deciding to sack all its debt collectors. But the important point is this: that the government has not only decided to continue with this plan conceived when the economy was booming and it might have made sense, it is accelerating it.*

*As a result it is clear that the Coalition is choosing to leave money with the tax crooks and cheats instead of collecting it to pay pensions, educate children, fund the NHS, keep our armed forces armed and so much more. It's that choice that UK Uncut were highlighting — picking on Top Shop because Sir Philip Green's family are widely reported to have actively avoided £285 million of tax in one year in the mid noughties. He's just an example, nothing more. But the example is important: there's cash out there; this government needs it and UK Uncut and others expect them to collect it, now, for the sake of us all. And by demonstrating UK Uncut have made clear that this option is available, which is why I supported them by giving evidence during their trial.*