

David Gauke and the tax gap - a man with his head firmly...

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I was very amused to meet David Gauke in London today. He has long avoided such a meeting, but when we walked slap bang into each other in Millbank television studios his chance to avoid me had gone, hands were shaken and discussion began immediately. Not on Barclays as might have been expected, but on the tax gap.

This was fuelled by his comments, issued yesterday, attacking the implausibility, as he sees it, of my tax gap data. In a press release he said he could not recognise [my £120 billion sum](#). He said [it was based on 'far fetched' assumptions](#). So I raised that issue.

He agreed straight away that of course there was £25 billion of unpaid tax at any time and this is not in HMRC's published estimate of the tax gap. It is in my estimate. He reduced my estimate to £95 billion as a result. I increased his from £35bn to £60bn since his methodology otherwise denied this was an issue needing addressing, which it clearly is. Either way, we were now in a position where his claim that he could not recognise the basis for my figures was already wrong: he'd agreed in seconds that £25 billion of my claim was right.

So we then discussed avoidance where [my estimate for the TUC is £25 billion](#). In about a minute he agreed that the difference of view was the result of what we define as avoidance. HMRC take a very narrow view of this that defines it solely as relating to those issues they think they might be able to foreseeably tackle. I take a much broader view, including many issues not on HMRC's current target list. He agreed that reasonably explained our different sums. So that was two of three issues dealt with. He could recognise that the assumptions were different, but not 'far fetched'.

So we moved on to evasion, and this was really interesting. I estimate the gap here, based largely on HMRC VAT data, which I think reliably and appropriately calculated, [is £70 billion a year](#). HMRC [say it is £25 billion](#). This implies, VAT apart, they think evasion driven activity is, having allowed for bad debt and avoidance, about £15bn in all direct taxes and as a result the shadow economy is about 4% (or maybe somewhat less) of the UK economy. In itself that is both weird and utterly implausible [when they admit](#) over 13% of VAT - based on top line sales- is lost, mainly to evasion. But it would also

make the UK way out the cleanest country in the world.

"We're good, you know," said Gauke to me.

"Oh, I agree," I replied "[at 13% we're still very high in the league tables](#), but no one, ever, has been as good as your data implies."

"But you have to be wrong," said Gauke. "I can't believe one pound in eight circulates in the cash economy," he said. "I just can't."

"It does," I replied, "just come down to Norfolk!"

He had the decency to laugh.

But the joke is not the point. The point is that this exchange revealed most of what needs to be known about this issue. I should note a little more was said - much of which revealed that Gauke really does not understand sampling - but the key point is he knows the data to contradict his position exists. I have, for example, [shown that peer reviewed data for the UK from the World Bank by chance almost exactly replicates my result](#). Despite this fact Gauke just can't accept the data. This is not because it's wrong. It's just, as he put it to me, he can't believe one pound in eight in the UK is in the shadow economy. And that position on his part is despite the fact that HMRC admit about one pound in seven of VAT has been lost to that economy for about a decade. But he'd rather pretend this is not the case for income tax, corporation tax, NIC and CGT, where he'd rather think only one pound in 25 (at most) is lost.

Respectfully, this is a head in the sand approach to policy, aided and abetted by HMRC's wholly irresponsible approach to assembling this data that is based very largely on the tax returns it receives and which ignores the obvious fact that many tax evaders simply do not submit returns at all.

This head in the sand approach does, of course, exactly replicate [his reaction to my proof that less than 1.2 million companies out of 2.8 million submit tax returns](#) - about 700,000 in the process ignoring a direct request to do so. He just said in response to that that "none of them can owe tax; that explains their failure." Well, you can assume that if you want - but it's a very wild assumption indeed that all law breakers break the law with innocent intent.

So what is actually clear is that it is not me but Gauke who is making the 'far fetched' assumptions on the tax gap. He has no rational reason for saying I'm wrong: he just does not want to think I might be right, even though all the evidence on evasion suggests I am. On avoidance I accept there's a more nuanced difference.

The problem is that based on this absurd basis for decision-making he is deciding not to try to collect the £120 billion tax gap. We all pay the price for that in terms of cuts, unemployment, and a wasted generation of young people without hope.

It's time Gauke stopped being so "nice" and saw through HMRC's management who want to persuade him they have a level of competence they unfortunately do not have (as is now obvious to just about everyone) and that he did instead act reasonably and on the evidence and appoint an independent team to assess the true scale of the tax gap with the follow on job of then monitoring HMRC's progress in collecting it. Call it OFFTAX if you like. But for all our sake's, please do it.