

Sacking staff at HMRC will increase the tax gap

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The Public Accounts Committee has published a new report on the effectiveness of HMRC. [Its chair, Margaret Hodge MP has said:](#)

There is at least £35 billion outstanding in uncollected tax.

This Programme has achieved a substantial increase in tax revenue of an additional £4.32 billion over the last five years. This is an impressive return on the £387 million invested and we welcome the progress the Department has made.

However, HMRC could have collected a further £1.1 billion had it not cut its staff numbers by more than 3,300 over the lifecycle of the Programme. The Department must consider whether further staff cuts will deliver value for money for the taxpayer.

I'll deal with the issue of effectiveness and staff cuts in a moment. What's really telling is that there is disagreement on the amount of the debt. HMRC [said in its 2010-11 accounts](#) (the most recent available):

Debt levels have decreased steadily over the past three years from £25.6 billion in March 2009, £22.1 billion in March 2010, to £18.6 billion in 2011.

The difference is reconciled by reference to the [PAC report itself, which says:](#)

HM Revenue and Customs (the Department) employs some 26,000 people on compliance and enforcement work, the purpose of which is to improve taxpayer compliance and tackle tax evasion and avoidance. Its long term aim is to reduce the tax gap—the difference between taxes due and the amount actually collected. According to the Department's own estimate, the tax gap stood at £35 billion (7.9% of all the tax due) in 2009-10, although other estimates suggest the figure is much greater.

Over the last five years, the Department has sought to transform this area of its business through the Compliance and Enforcement Programme (the Programme). The Programme was intended to target the areas of greatest risk and raise productivity, delivering an extra £4.56 billion in tax revenue by 2010-11. In practice, the Programme

has brought in £4.32 billion of tax revenue over the five years to 2010-11, a rate of return of 11:1 on the money invested. The Department expects that the changes introduced will generate a further £8.87 billion by 2014-15. This success has been achieved in large part by innovation, allowing HMRC to make better use of data to assess the risks and patterns of evasion, and to deliver substantial productivity improvements by processing cases more quickly and efficiently.

So, what's clear is that the £35 billion is not debt, it's the tax gap - according to HMRC, although with tacit acknowledgement given to my alternative calculations.

And second, what they're saying (in summary, and I'll return to many detailed findings) are three things:

- 1) The tax gap may be bigger than they acknowledge
- 2) Spending to close the tax gap has been highly effective, as I've always suggested
- 3) Plans to sack staff now threaten to undermine this progress. In other words the tax gap could get worse.

Now why would the Tories want that to happen? It's a theme I'll address at the PCS conference in Brighton this afternoon - and I'll publish the speech I'm making there later today.