

Why are they increasing the tax gap?

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'Why are they increasing the tax gap?' is the title of my new report for PCS, published yesterday.

As I say in the executive summary:

This report is an update on one of the most important issues in the UK right now, which is the tax gap.

The tax gap is the difference between the money that the government should collect from the taxes owed in this country if everyone complied with the law and the amount of money the government does actually collect in tax.

In 2010 PCS was responsible for commissioning and publishing the most comprehensive calculation of the UK tax gap ever undertaken at that time.

The report by Tax Research UK, which estimated that the tax gap could be as big as £120 billion a year was criticised by the tax profession, by government ministers, by HM Revenue & Customs (HMRC) and by many large companies. However, what we have learned since 2010 is that this estimate of the tax gap has proved to be vastly more reliable as an indicator of the likely loss arising from the tax gap than any of those estimates produced by HMRC, who claimed the figure to be only £35 billion at their last count.

Things have moved on since 2010. As this report shows, the government has now admitted that tax avoidance in this country takes place on a scale that makes all their past estimates look ludicrously low. Indeed, so keen are they to admit that tax avoidance is prevalent that they might even be challenging Tax Research UK's estimate as too low sometime soon! What this report also shows is that the government's estimate of tax evasion is likely to wildly underestimate the scale of that problem and that Tax Research UK's estimate is, once again, likely to be much more reliable.

This is incredibly important. If the tax gap is as big as £25 billion of tax avoidance a year, £70 billion of tax evasion a year and £25 billion of tax paid late at any point in

time, then there is a vast sum of unpaid tax in our economy waiting to be collected if only there was the political will to do so. If it was decided to collect that tax, not only would we employ more people in HMRC, so helping tackle unemployment whilst providing people with meaningful and socially useful work, we would also prevent much of the programme of cuts that is now destroying our economy and which has forced us into a double-dip recession. What the existence of the tax gap proves is that we do have an economic choice about how to tackle the financial crisis and that the government has made the wrong one.

The result is that the tax gap is not now just an issue of obscure interest to tax technicians, it is taking centre stage in the political and economic debate about the future of our country, the prospects of employment for the people of the UK, the chances of providing people with their pensions, the provision of public services and the nature of the society we wish to live in and the type of companies that we wish to operate within it.

That is why we also make some practical suggestions in this report on how the tax gap could be tackled, almost immediately.

These suggest:

- * *Creating a proper general anti-avoidance rule in UK law — rather than the apology for one that is now being proposed by the government;*
- * *Supporting the introduction of countryby- country reporting for multinational corporations so that we know which of them do, and do not, pay the tax that they really owe in the UK;*
- * *Investing in more staff at HMRC;*
- * *Reforming small business taxation to discourage avoidance and tackle tax evasion.*

What is now clear is that there is real appetite for these changes. Just as PCS has with many NGOs and the TUC, called for the introduction of an international financial transaction tax which if introduced could raise additional billions, so has PCS played its part in drawing this whole issue of the tax gap to the public's attention and in helping create an environment in which organisations like UK Uncut, the Occupy movement, the Tax Justice Network and others have been able to highlight the injustice that the tax gap causes. That injustice is, however, ongoing. That is why we hope you read and share this report.

Tackling the tax gap could change our lives.