

Would closing the tax gap deepen the economic crisis?

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I normally ignore Tim Worstall. So does almost everyone on the left, and for good reason: he's a troll cheerleader saying little of worth, offering abuse by the bucket load and encouraging all the worst traits of internet rage and hatred that now so disfigure the right's contribution to political debate.

That said, Tim does not ignore me. Since he was given a Telegraph column a few weeks ago more than half his columns have featured commentary on my work. I wouldn't like to suggest he's a man obsessed; the evidence does it for me.

[His latest offering is an example of his genre.](#) It's riddled with abuse, intellectual inconsistency (at one moment praising HMRC for disagreeing with me on the tax gap; on others roundly condemning them for trying to collect tax to close that gap and next excusing the criminality of tax evaders and even suggesting society has a duty to tolerate their crimes in the name of so-called freedom) and straightforward misquotation and incorrect fact (he has got tax debt seriously wrong). It's easy to see why he's so easy to ignore.

But on this occasion he has tried to put forward an argument on the tax gap. First, he says I'm wrong to include gross tax debt in it. But that's obviously wrong for two reasons. The first as I explain in [my new report for PCS](#) is that HMRC have also done so in their time. The second is so glaringly obvious it shouldn't really need saying, but as Tim doesn't get it I will, which is that if you're trying to recover gross debt then you have to include gross debt before recovery and not net debt after recoveries in your performance target. I can only conclude Tim's never actually ever managed any real business of any substance if he knows so little about such things.

Second, he argues the corporate tax gap I calculate is simply companies claiming routine tax reliefs. Even [serious tax journalists now dispute that](#), and rightly too. Read this The claim is just nonsense.

Third, he moves on to what he thinks is economics. He makes three claims. The first is that I assume that if the tax gap were closed there would be no impact on economic

activity undertaken in the economy. I've never said such thing, firstly because I hope there will be such an impact; secondly because I have never claimed we could close the whole tax gap, and thirdly because far from having the negative impact he suggests I believe the result would be almost wholly beneficial, the reasons for which I explain below. As usual, Worstall's claim about my work is just wrong.

His second economic claim is that the costs of tackling the tax gap aren't worth incurring. This is extraordinary. Whatever the right number for the gap - and it's always in reality going to be a range not a precise figure - we're talking about many tens of billions of pounds. And all Worstall can say in response is that the massive abuse is a price worth paying for his concept of freedom - which is unsurprising when his definition of freedom is the right to abuse. That's not just warped logic, it's fundamentally unethical.

So let me come to the third argument that he makes, which is that closing the tax gap won't in any case end austerity. His logic is that all tax paid increases austerity and therefore closing the tax gap would reduce growth.

This is deliberate misinformation by Worstall for a number of reasons. First, we're not talking about extra taxes here. We're talking about collecting taxes owing. That's something very different.

Second, I've never suggested we collect these taxes to pay down debt. I've suggested we collect them to spend - as a stimulus for growth. Worstall's claim is only right if the money is withdrawn from the economy, but I don't suggest that. I suggest it be used to invest in the economy - and that stimulates growth by more than is spent. In that case Worstall's either not telling the truth (which is likely) or does not understand economics (certain).

Third, failure to collect these taxes is incredibly harmful to business. [I explain this logic in full here](#). Suffice to say if you undermine trust because cheating is prevalent then you destroy effective markets. And if you create competition on the basis of the ability to cheat you misallocate resources from production to speculation, and that reduces growth. And third, if you use asymmetric information to deliver this through tax havens you encourage big business over small and deliver market inefficiency via monopoly.

Worstall ignores all this because unlike me he learned economics, but has clearly never thought about it. And the conventional economics to which he subscribes simply does not address these issues. So he comes to the wrong answer, as ever.

Which is, I guess, a long way round of saying we should continue to ignore him.