

## The argument is over: HMRC understate the tax gap

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The tax gap debate in the UK was pretty much first sparked by my February 2008 paper for the TUC entitled [The Missing Billions. Old Treasury papers reveal that](#). HMRC began publishing tax gap data in direct response, [the first in March 2010](#). I have been arguing HMRC have got their methodology wrong and have massively understated the tax gap pretty much ever since.

Yesterday the Public Accounts Committee addressed the issue, [partly using questions I'd suggested here yesterday morning](#). And the conclusion, [according to the Guardian was:](#)

*Britain's official tax gap of £35bn is only the "tip of the iceberg" and is being exacerbated by tax officials' failures to use the law to clamp down on internet giants such as Google and Amazon, according to the high-profile chair of a committee of MPs.*

*Margaret Hodge cast doubts over HM Revenue & Customs' estimate of just how much taxation is lost through avoidance, evasion and non-payment as the public accounts committee questioned Britain's leading tax officials.*

*The officials admitted that they do not include money earned in Britain by Google, Amazon and Starbucks — all accused of tax avoidance, but who reiterate that they abide by the law — in their tax gap estimate.*

*Hodge said: "It does not include a lot of what ordinary punters in the street think you should be collecting, particularly in regard to the large corporations. The tax gap is really the tip of the iceberg in the gap between the money that you collect and the money if everyone paid their fair share."*

I think the time has come for HMRC to stop pretending that their tax gap measure is either a useful measure or a useful management tool. It is neither. It does not indicate areas of concern requiring action; its methodology is dubious at best, and by dramatically understating the scale of the tax gap problem it does not act as a good indicator of the resources HMRC needs to address this issue. The result is that it is not fit for purpose. Margaret Hodge came to that conclusion and I am sure her report will do

so too.

Now it's time for a useful measure to be introduced. The question is whether HMRC will have the nerve to admit they got this wrong. After all, if parliament does not think their measure useful then it quite clearly is not: no better indication of it not being useful could be found. Under the current Board I doubt that it will make any changes though, but I look forward to being proved wrong.

*Update:*

Richard Brooks has posted this on Twitter:

*Fair point. I'm always happy to share credit with Richard. We were both on the case in different ways.*