Funding the Future

In the Shade: the UKâ€™s missing economy

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I issued the following press release last night:

A new report, written by veteran tax campaigner and chartered accountant Richard Murphy and published jointly by Tax Research UK, the Tax Justice Network and the Association for Accountancy and Business Affairs highlights the staggering scale of the UK's shadow economy.

Based on data on missing VAT published by both HM Revenue & Customs and the European Union the report estimates that in 2011/12 there were £100 billion of sales that weren't declared to the UK's tax authorities. That is one pound in every ten of sales in that year.

As a result the report estimates that £40 billion of VAT, income tax, national insurance and corporation tax was lost to the UK Exchequer on 2011/12. By 2014/15 based on HM Treasury and Office for Budget Responsibility projections it is likely that this loss will increase to £47 billion.

As the report shows, this staggering loss of tax — enough to pay for the combined housing, environment and transport budgets for the UK or half of its education budget — does not happen by chance for a number of reasons.

The first is HM Revenue & Customs' refusal to correctly calculate the size of the UK tax gap — which as the report shows is drastically underestimated by them when it comes to tax evasion.

As a result HMRC has willingly reduced its resources — and especially its staff numbers - in the face of demands for government cuts when the result has been a staggering loss of tax revenue that could itself have helped close the deficit and prevent the austerity programmes this country has suffered.

But as the report highlights, there is also a collective willingness on the part of both HMRC and the UK company regulator — Companies House — to turn a blind eye to hundreds of thousands of companies that trade in the UK and which never submit their *accounts to Companies House and never file tax returns with HMRC. The report estimates that there may be at least 400,000 companies a year that do neither and that those company directors ignoring their responsibilities in this way do so because they know they have almost no risk of being penalised. In effect these two authorities permit hundreds of thousands of companies to undertake tax fraud in the UK each year whilst turning a blind eye to what is happening.*

Richard Murphy of Tax Research UK, the reports author said:

"What this report shows is that HMRC is not trying to collect the tax that is due in the UK. Rather than tackle the tax fraudsters who undermine all honest small business in this country our tax authority would rather impose cuts and sack its staff. The fact that they seem happy to collect tax returns form only just over half of all companies in the UK is the surest sign of that."

John Christensen, director of the Tax Justice Network said:

"This is all about political will. What we have is a government so intent on cutting what it considers red tape that we have ended up with rampant fraud in the UK. That imposes a cost on all of us, whether through higher tax bills for honest taxpayers or by cuts in services that many depend upon to make their lives possible."

Prof Prem Sikka of Essex University and the Association for Accountancy and Business Affairs said:

"*Successive governments have abdicated their responsibility by failing to fully enforce tax and corporate laws. The inevitable outcome is loss of much needed tax revenues and public accountability. This is a national scandal and must be addressed by greater investment in manpower and technology.*"

Caroline Lucas MP, whose parliamentary questions on tax issues assisted the research, said:

"We hear time and again from the Government that they are serious about tackling tax dodging, yet this report is further evidence of their failure to take the necessary steps. It's high time the Treasury stopped doing its own dodging of the facts and instead created a level playing field, where all businesses are required to pay their fair share of tax."

The report makes concrete proposals for change including investment of more resources in both HM Revenue & Customs and Companies House. The resources of Companies House could, for example, be doubled by increasing the annual fee for having a company in the UK for £13 to £30.

More importantly the report also suggests that the UK' banks should now advise HMRC each year of those customers for whom they maintain accounts providing details of the address from which they trade and who the company owners are. That way HMRC will know which companies are definitely trading in the UK and so need to be chased for the tax returns and accounts they should be submitting and tax that they owe.

ENDS

NOTES TO EDITORS

The report on which this press release is based ***is available here. The detailed research which supports that report is available here.***