

# Is corporation tax now an 'honesty box' tax - paid only...

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In my new report '[In the Shade: the UK's missing economy](#)' I suggest that HM Revenue & Customs are lax, in the extreme, in their efforts to collect corporation tax. As evidence I have shown that they fail to ask for corporation tax returns from at least 650,000 companies who might be due to make them each year. I also show that in the last year surveyed at least 270,000 companies failed to submit corporation tax returns. Despite [this HMRC told the Guardian](#):

*We don't recognise the estimate of tax lost to companies. We are extremely good at identifying companies which need to send in a tax return, pursuing overdue returns and generally protecting tax payable when a return doesn't appear.*

I have shown just how ludicrous this claim is this morning. [Over a four year period 99.9% of the value all tax penalties issued by HMRC for late submission of corporation tax returns were not paid or were written off for one reason or another](#). Now I accept that is in part because of a coincidence of accounting data but in the most generous interpretation possible 11% of penalties were paid - and that interpretation is probably far too generous to be true.

In that case the evidence is very clear indeed: HMRC fail to find almost any of the corporation tax returns not submitted to them. And they fail to collect the penalties due. So it is almost certain that they fail to collect the tax due as well, which is, of course, what I suggest in my work. In that case corporation tax has become, in effect, an honesty box tax for those who are willing to submit their corporation tax returns, with the rest being given the choice of opting out of the system.

I explained one way in which that opting out could take place in the report, suggesting that when HMRC send an enquiry form to a new company they ask whether or not it intends to trade and if a negative answer is given they then do not send it tax returns for five years - which I described as a licence to defraud HMRC. However, a commentator on this site, who seems to know what he or she is talking about, [has said that this is now out of date \(I have edited two comments together\)](#):

*The position that HMRC took until maybe a couple of years ago was that, if a company*

*failed to notify accounting dates or dormancy within 3 months of incorporation, HMRC would assume that the company was active and set up live accounting periods from the date of incorporation (until informed otherwise.)*

*The current, up-to-date position is the exact opposite. Companies (truly dormant or otherwise) no longer have to tell HMRC they are not trading. If HMRC don't hear anything back within a few months of the issue of the CT41G letter, HMRC assumes that the company is non-trading, note the record as dormant and no notices to deliver returns are issued.*

*When quizzed about this HMRC management repeat their mantra that lots of newly set-up companies never actually trade and it is a waste of time and resources (i.e. jobs) to keep maintaining records on such companies. When challenged about the evidence of their assertion (e.g. a proper study, some statistics) they hide behind their favoured management-speak.*

If that is the case then this is pure madness: corporation tax will have become an 'opt in' tax system. Unsurprisingly tax evaders will choose to opt out, and HMRC may be letting them do just that.

If this is true (and comments would be welcome, please, including from HMRC) then this is recklessness, in the extreme, with public revenue.