

Whose leg are HMRC pulling when they say they're on top...

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I am very amused by HMRC's response to my new reports - 'In the Shade: The UK's missing economy' - [as reported in the Guardian this morning](#). They actually attack two parts of my work, and I will deal with each separately in different blogs.

Dealing first with HMRC's response to my estimate that £22 billion of tax is lost to under-reporting by UK companies the Guardian note:

"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 to admit I did laugh out loud when reading that. Let's just explore why that is the case.

First, as I show on page 33 [of my detailed research report](#), in 2011/12 HMRC did not ask for corporation tax returns from 650,000 companies in a year. This is almost entirely because when new companies are sent a form soon after they incorporate they are given the option of telling HMRC that they do not trade. If they say they don't (and if you're planning to evade tax that's just about the easiest thing on earth to do) then HMRC's response is to then not ask for a tax return from that company for the next five years. There appear to be almost no checks undertaken on those companies during that period. It is harder to imagine a simpler way to licence fraud in the UK. I believe that this horrendously lax arrangement is open to massive abuse and that every company should be asked to submit a tax return.

However, even those 1.88 million companies that were asked to submit tax returns in 2011/12 could be fairly relaxed about the process. That's because as I show on page 35 of my report, 271,000 of those companies did not bother to do so. That figure was admittedly down from an average of 376,000 who had failed to submit returns in previous years, but so too was the proportion asked to submit, to just 70% of eligible companies (page 33). To put this in context, on average in the five years to 2011/12 19.6% of all companies sent corporation tax returns did not submit them and nothing

happened as a consequence. If the Revenue say that's good then they need to raise their game. I will deal in another blog with the consequences for those who did not submit returns - but trust me for now, they are utterly inconsequential. The reality is they are, in practice, simply ignored by HMRC.

But, in case you remain in doubt, in [the IMF's report to HMRC on their tax gap methodology issued in October 2013](#) they said 'Undetected undeclared liabilities are not being accounted for all [corporate] taxpayers'. So do I. That's exactly the point I am making. In other words, I am pointing out that HMRC are not good at what exactly the IMF have already told them they are not good at. I think HMRC doth protest too much.