

Reflections on the HMRC tax gap

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I am aware that there are some who [think my criticism of HMRC's tax gap report](#) was on the heavy side yesterday. In particular, they have suggested that HMRC's failure to disclose its headline data was mis-stated was not misleading and that its estimates are not as inaccurate as I am suggesting.

Despite claims to the contrary I listen to criticism when it comes from people whose opinions I value. So having slept on the issue I reflected this morning on whether there was any of the commentary I might change. I have to say there is not.

First, HMRC should make it very clear when it has restated data. That is the essence of transparency and accountability. To not do so is misleading.

Second, HMRC need to radically transform the way they disclose much of their work. To say, deep down in the notes and in a separate report, that much of the tax gap data is made up of 'illustrative estimates' for which no explanation is provided is unacceptable. The suggestion I have made that HMRC are simply making this stuff up is, in the circumstances, quite acceptable. The FT once made exactly the same observation.

Third, to suggest that there is massive behavioural change, such as a significant fall in tax avoidance, on such a narrow basis as registration for DOTAS schemes is seriously misleading. That is really poor methodology, and a much broader consideration is needed. To pretend that major companies are not tax avoiding because schemes like those used by Google et al do not need to be registered under DOTAS is deliberately misrepresenting the truth when even the Chancellor says this avoidance needs to be tackled.

Fourth, it remains the case that HMRC surveys the tax returns it gets to estimate its tax gap, so missing tax returns it does not get as a source of tax evasion estimates. Unsurprisingly it massively underestimates tax evasion as a result.

And fifth HMRC persists in only doing top down estimates for VAT, where it finds a high

rate of evasion loss, and then refuses to consider this can have any impact elsewhere in the tax system when it is very obvious that if income is being evaded for VAT purposes other taxes simply have to be evaded as well. No one on earth suppresses income on their VAT return and then declares it on their tax return - but HMRC continue to suggest they do, which undermines all their credibility on this issue.

So, I am afraid to say that yesterday's release was fundamentally flawed and after this length of time HMRC have had the time needed to acknowledge the fact and won't.

And that's not just irresponsibility on their part it is irresponsibility with a consequence because this country is suffering badly as a result of HMRC's failure to collect tax owing to it. And for that I cannot forgive them because I believe that is a conscious political choice and one that is creating misery for millions in this country.