

HMRC say it: tax avoidance is a choice

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HMRC has published a [new review of large business tax practice](#). This will reward some study, but page 10 provides a lot of support for arguments I have long made.

In a section on the choice of attitude business can make towards tax the researchers working on behalf of HMRC identify that two choices emerged. They said that:

Either:

- *tax was treated as a cost or risk that could be altered like any part of the business, or*
- *tax was viewed as key to the business's identity, reputation, and long-term value.*

As a result of this choice they noted two quite distinct behaviour characteristics. Since I think this finding useful, and even important, let me quote at length what they think those choices and how they are manifested are.

First there is the group who made the first choice noted above, of whom the researchers say:

Businesses who treated tax as a straight-forward cost or risk, generally did not view their tax obligation to have a moral component, viewing it instead as a legal necessity. Their focus was on compliance and not paying more than the minimum required by law — an approach they assumed to be the norm amongst all businesses. Such businesses were more likely to employ sophisticated risk management processes, for both tax-specific risks (i.e. around consequences of errors or infractions) and other risks involved in running a business (such as investment risk, increased competition, personnel and strikes), in order to maximise profit. They were also much more likely to have effective tax rate targets and for these to be shared internally. Their corporate goals often spoke of efficiency and commitment to delivering value, and they felt that it was normal and justified for businesses to attempt to minimise their tax burden. These businesses tended to be much more structurally complex, often due to choice, and would more readily pursue opportunities, e.g. seek large acquisitions, or focus activity in countries with favourable tax rates and less aggressive tax authorities.

Then there is the second group, of which they note:

On the other end of the spectrum, businesses saw tax as part of identity. Here, tax was linked to corporate social responsibility policy, and seen as critical to a business's reputation. Whilst this was occasionally strengthened by a moral or ethical imperative, it was primarily a long term strategy to safeguard sustainable shareholder value and defend the business's identity. Such businesses tended to be simpler in structure, while those that were complex had little interest in exploiting any opportunities for tax efficiencies afforded by their structure. The effective tax rate was not linked to any individual or business goals, and in some cases staff were not aware of it at all.

A number of very obvious conclusions follow.

First, tax avoidance is a choice.

Second, that behaviour is associated with complexity and therefore cost which is no doubt incurred for an expected economic gain that is represented by reduced tax bills. The researchers do not say it, but no doubt the complexity and opacity associated with it no doubt aids this process.

Third, the denial that this behaviour has anything to do with morality is itself indication of a lie implicit within the claim: that some can choose another option clearly indicates that this is a moral choice.

Fourth, the implication of the HMRC researcher's findings is that there is a significant body of opinion that thinks that tax is about making moral choices, as I have long argued, and that this is true within the large business community.

Fifth, it is also apparent that the same companies that make the moral choice also see no conflict in doing so with their duty to act in the interest of shareholders: these entities remain in business and there is no indication of mass legal actions arising.

Sixth, in that case there is a reason to think change is possible between groups: the researchers note a marked change in opinion in 2013. I would suggest the change agent was Margaret Hodge. I would suggest that the flow will remain in the direction of adopting the moral choice.

Seventh, I am pleased to note that this implies a long-term future for the [Fair Tax Mark](#).

Sometimes HMRC delivers good news. This was one such occasion.