The Public Accounts Committee is deeply unimpressed by ...

Published: January 13, 2026, 9:53 am

The following press release from the Public Accounts Committee seems to be worth sharing in full because it reflects a great deal of what I have said about HMRC's weaknesses for a long time. Action is desperately needed. I note what is said on the tax gap. I continue to think that an Office for Tax Responsibility is needed as a matter of priority:

Public Accounts Committee Press Notice

34th PAC Report 2015-2016 — Tackling tax fraud

Published: 15 April 2016

PAC: NEW MEASURES AND GREATER CLARITY NEEDED IN FIGHT AGAINST TAX FRAUD

HMRC is not doing enough to tackle tax fraud, the Committee of Public Accounts concludes in a new Report.

It finds the department has made “only limited progress” in reducing the level of losses, which has been “relatively constant” over the last five years.

Tax fraud results in losses of some £16 billion a year, almost half of the £34 billion tax gap — that is, the difference between the amount of tax HMRC collects and how much it should, in theory, collect.

The Committee finds the department has not set out a clear strategy for dealing with tax fraud and concludes it does not know what meeting its target of 1,000 additional prosecutions has achieved.

The Committee describes the department’s reporting of its own performance as “too confusing”.

It also calls on HMRC to address the perception that it does not tackle tax fraud by the wealthy.

The Report states: “We concluded in November 2015 that the number of criminal prosecutions for offshore tax evasion was still ‘woefully inadequate’.

“HMRC told us that it needs to send the clear signal that anyone who evades tax runs the risk of prosecution.

“The failure to prosecute more than one individual from the Falciani list, HMRC having closed this case and the Financial Conduct Authority no longer taking further action, creates the impression that the rich can get away with tax fraud.”

Among its recommendations, the Committee urges HMRC to “clearly set out in its annual reports the relationship between its compliance yields and changes in the tax gap”, and also publish this information “in a way that is accessible for everyone to understand.”

The Committee says HMRC should set out its strategy to tackle fraud by November 2016, and also take steps to “counter the belief that people are getting away with tax evasion”.

It calls on HMRC “to increase the number of investigations and prosecutions, including wealthy tax evaders, and publicise this work to deter others from evading tax and to send out a message that those who try will not get away with it”.

The Committee also calls for clarity on the “growing risk” of VAT fraud by internet traders, and on the effectiveness of measures intended to tackle this fraud.

Meg Hillier MP, Chair of the PAC, said today: “The scale of tax fraud, both in cash terms and as a proportion of uncollected tax, demonstrates just how vital it is for HMRC to bring focus to its efforts in this area.

“The public purse is missing out on some £16 billion in tax a year because of evasion and other criminal activities. When people break the law, there must be consequences — and there must be seen to be consequences.

“Honest taxpayers rightly expect a tax system that works fairly for all and any perception that this is not the case undermines the public’s trust in that system. Its credibility is at risk.

“The release of the ‘Panama Papers’ underlines that there are wealthy people and companies who seek to keep their affairs secret.

“Where this secrecy involves criminal activity, prosecution must follow — and the threat of prosecution must serve as an effective deterrent to others.

“The department must be far clearer with Parliament and the public about its strategy for combating tax fraud and the impact of that strategy on the tax gap. To achieve this it needs a better grasp of its own work.

“The evidence we heard from HMRC did not convince us it properly understands the effectiveness of the different enforcement and deterrent tactics it employs. This is a fundamental weakness in its strategy.

“From this month there are significant changes in senior management at HMRC. The Public Accounts Committee will expect the incoming regime to respond to the challenges and shortcomings we have highlighted with renewed vigour.”

PAC REPORT SUMMARY

HM Revenue & Customs (HMRC) is not doing enough to tackle tax fraud, which accounts for at least £16 billion of uncollected tax each year.

HMRC has made only limited progress in reducing the level of tax fraud losses which has remained relatively constant over the last 5 years, at around 3% of all tax liabilities.

HMRC’s strategy for tackling tax fraud is unclear, particularly its approach to prosecutions where it does not know the number needed to provide an effective deterrent.

The failure to prosecute more than one individual from the Falciani list, HMRC having closed this case and the Financial Conduct Authority no longer taking further action, creates the impression that the rich can get away with tax fraud.

HMRC also needs to explain why the amount of tax it claims to have recovered from its compliance work rises sharply each year, but the size of the tax gap (the difference between the amount of tax that it collects and how much it should, in theory, collect) stays the same.

SUMMARY OF CONCLUSIONS AND RECOMMENDATION

We cannot judge how effective HMRC is at reducing the tax gap because the way it reports its performance is too confusing. HMRC told us that its performance in addressing tax fraud was good. But HMRC’s assessment of the tax gap shows that the level of tax fraud has remained virtually static over the last five years, at around 3% of all tax liabilities. The impact that HMRC claims for its work far exceeds any reduction in the tax gap. HMRC reported additional revenue from its compliance activities (known as compliance yield) of £26.6 billion in 2014-15 and yields have increased every year since 2011. During this time the total tax gap reported by HMRC has remained at around £34 billion. At the Summer Budget 2015, HMRC received additional funding with the aim of bringing in £7 billion more compliance yield by the end of 2021. However, HMRC told us that this would not result in a similar reduction in the tax gap, as some of HMRC's effort is to stop the tax gap rising, rather than reduce it, although it does not distinguish between the two. Moreover, HMRC could not tell us where it expects the tax gap to be in the long term as a result of its efforts.

Recommendation: HMRC should clearly set out in its annual reports the relationship between its compliance yields and changes in the tax gap. It should also publish this information in a way that is accessible for everyone to understand.

HMRC has not set out a clear strategy for tackling tax fraud. HMRC referred to a number of areas where it plans to focus its activities to tackle different types of tax fraud including the risks posed by illicit alcohol and evasion by wealthy individuals. HMRC is missing key information that would be necessary to inform a properly strategic approach. For example, HMRC could not tell us how much resource it puts into tackling tax fraud compared to other types of compliance work, such as dealing with tax avoidance or error. Similarly, HMRC could not tell us how much of the additional tax revenue it generates through its compliance work comes from its work to tackle tax fraud. The National Audit Office estimates that 30% to 40% of HMRC's compliance yield is related to tax fraud, which appears low when this area accounts for half of the total tax gap. HMRC acknowledged that it needed better management information and was seeking to improve its analysis of the costs and benefits of its work to tackle tax fraud.

Recommendation: HMRC should set out its strategy to tackle fraud by November 2016. It should identify how much resource is devoted to tackling different tax risks and the corresponding yield in each area of the tax gap.

The perception that HMRC does not tackle tax fraud by the wealthy needs to be addressed. We concluded in November 2015 that the number of criminal prosecutions for offshore tax evasion was still "woefully inadequate". HMRC told us that it needs to send the clear signal that anyone who evades tax runs the risk of prosecution. The failure to prosecute more than one individual from the Falciani list, HMRC having closed this case and the Financial Conduct Authority no longer taking further action, creates the impression that the rich can get away with tax fraud. HMRC told us it investigates around 35 wealthy individuals for tax evasion each year, but did not know how many wealthy individuals it had successfully prosecuted. We welcome the fact that HMRC has sought and received funding to increase the number of investigations it undertakes into corporates and wealthy individuals to 100 a year by 2020, indicating that the current level is insufficient.

Recommendation: HMRC must do more to tackle tax fraud and counter the belief that people are getting away with tax evasion. It needs to increase the number of investigations and prosecutions, including wealthy tax evaders, and publicise this work to deter others from evading tax and to send out a message that those who try will not get away with it.

HMRC does not know what meeting its target of 1,000 additional prosecutions

has achieved. In 2011, HMRC was set a target to increase prosecutions for tax evasion from 165 in 2010-11 to 1,165 by 2014-15, based on what HMRC thought it and the wider criminal justice system could cope with at the time. HMRC achieved this target by focussing on lower complexity cases. HMRC accepts it needs to better prioritise prosecutions in the future in line with the biggest areas of risk. HMRC does not know what impact prosecuting an extra 1,000 people has had or what the optimum number would be to provide an effective deterrent. HMRC told us that it was difficult to isolate the impact of prosecutions from other types of compliance work and that it was seeking to improve its understanding of the impact of its activities. HMRC also pointed to its survey data as evidence of the deterrent effect of its work, but this shows a mixed picture: the number of businesses who thought that tax evaders would be prosecuted has risen, but the number of individuals saying they thought tax evaders would be prosecuted has decreased. Despite the uncertainty about what these additional prosecutions have achieved, HMRC claimed a financial impact of £295 million from this work in 2014-15, despite its own analysts being unable to verify that number._

Recommendation: HMRC should assess what is the optimum number and mix of people to prosecute and should evaluate and quantify the impact of prosecutions and other counter-measures in deterring evasion. It should work with others to model the impact of different approaches, and then review its prosecutions strategy using this data.

HMRC has been slow to respond to the growing risk of VAT fraud by internet traders. The previous Committee took evidence on issues relating to VAT fraud three times during 2013 including the problem of goods having been purchased online without VAT having been charged. Given that, we were surprised to be told by HMRC that this was a new problem. HMRC told us it was considering what action it could take in response to risks relating to internet traders. Subsequently, new measures were announced in the 2016 Budget designed to protect the UK market from unfair online competition. These give HMRC strengthened operational powers to tackle the non-compliance from some overseas businesses that avoid paying UK VAT on sales of goods made to UK consumers via online marketplaces. HMRC could not provide us with a firm estimate of the tax losses associated with this growing problem, but they may be billions of pounds a year.

Recommendation: HMRC should review the Committee's previous findings on VAT fraud, and identify the size of VAT internet fraud and update the Committee on how effective the measures introduced in the Budget have been to address this. HMRC should update the Committee within the next 12 months.

NOTES FOR EDITORS

The Report can be accessed in HTML and PDF formats via the following links:

http://www.publications.parliament.uk/pa/cm201516/cmselect/cmpubacc/674/

[**67402.htm**]()

[**http://www.publications.parliament.uk/pa/cm201516/cmselect/cmpubacc/674/674.pdf**](http://www.publications.parliament.uk/pa/cm201516/cmselect/cmpubacc/674/674.pdf)