

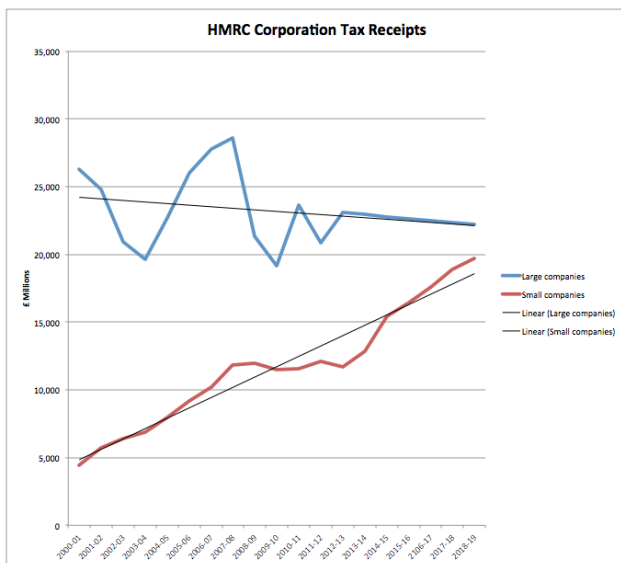
## The corporation tax shortfall was completely predictable...

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Everyone [seems surprised that corporation tax receipts](#) in September fell short. I confess I am not sure why.

As [I showed in 2014](#) corporation tax receipts fall into two parts, one being from large companies (with profits of more than £1.5 million) and the rest being small. As I modelled at that time forecast receipts looked like this:



As a matter of policy large company receipts were planned to fall. This was because of declining tax rates, more relaxed rules allowing more profit to shift to tax havens and special incentives that encourage tax avoidance, like R&D allowances.

On the other hand small company tax yield was forecast to increase significantly. This depended on increasing compliance rates despite steady falls in the number of HMRC staff, overall growth and a growing army of self employed people forming companies.

I strongly suspect all the assumptions on large business tax to have held true: there have been tax cuts and as a matter of fact if you give big business the opportunity to

no pay tax, as George Osborne did, then by and large they won't. It's really not rocket science to work that out.

But what of small business? First, growth has not met expectations. Second, [self employed earnings have been falling](#), and this is likely to impact this sector as well, and third, HMRC are still refusing to take the issue of small company tax evasion seriously and so about [1 million companies](#) who may have tax liabilities are allowed to get away without submitting corporation tax returns each year, which as acts of reckless folly go is near to unforgivable.

The result? I suspect big business has paid even less than expected and small business is simply not bothering to pay what it owes when it knows HMRC simply hasn't got the resources to check what is going on.

And so we have a budget shortfall. And all because of irresponsible tax policy for big business and a reckless indifference to tax collection in the case of small ones.

At least that means working out how to solve this part of the problem is quite easy. But don't expect anything to happen: deficits suit a government that still wants to cut.