

How many tax gaps?

Published: January 13, 2026, 6:04 am

I discussed tax gaps at the academic meeting I am attending in Prague yesterday and suggested new approaches to the study of the issue. In the process it was suggested I was trying to push boundaries, which point I accepted. But, I argued, our current view that the tax gap is the difference between the amount of tax that would be collected in a jurisdiction if the laws of that state were complied with as it is believed its parliament intended and the actual amount of tax that the domestic tax authority of that jurisdiction is actually able to collect in a period using the resources made available to it, need not be the only definition used for this fundamental measure that has such a massive impact on the economic well-being of a country because of its consequences for macro economic policy.

Back in 2006, before this current idea was embedded in the minds of most of those addressing the issue [I speculated that their might be at least twenty tax gaps](#). For the record, I might not come up with the same list, with the same description now, but these were the gaps I described back then, and I see no reason why this broader thinking cannot be embraced now:

Absolute gaps

1. The Revenue Gap The difference between what a tax authority expects to raise in tax given current levels of economic activity, and what it actually raises in taxation revenues. This Gap can, of course, be broken down between different taxes e.g. income taxes, company taxes, value added taxes, and so on.

2. The Proportionate Gap The difference between the proportion of income paid in tax by the best off in a society, and the proportion of income paid in tax by the worst off in a society. This is a measure of how progressive the tax system is.

3. The Poverty Gap The difference between the after tax incomes of the rich and the poor in a society (to which taxation policy contributes). This is a measure of social justice within a society.

Corporate Gaps

4. The Reporting Gap The difference between the information that a reasonable user of the accounts of a corporation needs to appraise the tax it pays and the information they actually get. This Gap is a measure of how well a company accounts for its activities.

5. The Expectation Gap The difference between the headline or declared tax rate for companies, and the rate of tax they actually pay. This Gap is a measure of the difference between the contribution society expects business to make by way of tax paid, and what is actually paid. Taxpayer Gaps

6. The Responsibility Gap The difference between the duty of care towards a country that a tax payer is expected to show when declaring their taxation liabilities, and the duty they actually display in their actions. This is a measure of the attitude taxpayers take towards their duty to pay tax and is likely to indicate the scale of both tax avoidance and evasion in an economy.

7. The Trust Gap The difference between the actual levels of trust that exist between tax payers and taxation authorities and the level of trust which would benefit both parties in the management of their mutual obligations. This measure is important because taxation is ultimately always levied with the consent of those who pay it. If that trust breaks down, less tax is paid.

Taxpayer gaps

8. The Transparency Gap The difference between the information the taxpayers in a country think they need to be able to understand what their government does with the money paid to it and the information they actually receive. This Gap measures the accountability of governments.

9. The Corruption Gap The difference between the tax that taxpayers think they pay to a government and the amount that the government actually has paid to it. This gap measures the corruption present in any tax collection system, whether that corruption is undertaken by politicians, government officials or others e.g. within banks.

10. The Efficiency Gap The difference between the benefit that could be obtained if all government revenues were spent in pursuit of its policies and the actual sum spent having allowed for waste, inefficiency and corruption. This is a measure of both the management inefficiency of governments and the corruption that occurs in their spending programmes. The measures overlap because very often it is difficult to differentiate the reasons for the loss.

International Gaps

11. The Competitive Gap The difference between the tax rates offered by different

countries as an incentive to attract inward investment into their economies. This is a measure of tax competition.

12. The Resource Gap The difference between the resources countries are able to allocate to ensuring that the international aspects of their taxation affairs are properly managed. This is a measure of the gap in resources between developed and developing countries. Many developing countries do not have the resources available to them to pursue enquiries about tax liabilities that may be due in their territories if they are not voluntarily declared.

13. The Multinational Gap The difference between the tax rate paid by companies who operate internationally and the tax rate paid by companies who only operate in one country. This is a measure of the taxation benefit companies who operate internationally obtain over their domestic rivals.

14. The Haven Gap The gap between what is considered reasonable behaviour in tax havens and what is considered reasonable behaviour elsewhere. This is a measure of both the difference in tax rates on offer in tax havens and elsewhere and the difference they offer in defining taxable income, which in many cases is the way in which they avoid charging individuals and companies to tax.

15. The Mobility Gap The difference between the way those who are internationally mobile are taxed in a country and the way those who live there permanently are taxed. This is a measure of the advantages the tax system of a country offers to those people who are internationally mobile compared to those who are normally resident in their country.

The National Gaps

16. The Corporate Gap The difference between the tax rate paid by corporations on a profit and the tax rate an individual might reasonably be expected to pay on the same profit. This is a measure of the taxation benefit companies are given in a society.

17. The Large / Small Gap The difference between the tax rate suffered by large companies and the tax rate suffered by small companies. This is a measure of the benefit large business gets in a society, largely because of its lobbying power, when compared to small business. It is measured by the difference in the average actual tax rate suffered when similar rules are apparently applied to each type of company.

18. The Social Security Gap The difference between the tax (including social security charges) due on average earnings in a country if earned from employment, and the tax due on the same level of income if earned from other sources. This is a measure of the total additional tax charges levied upon earnings derived from human endeavour when compared with the tax charges levied on similar income from any other source.

19. The Administration Gap The difference between the administrative burden suffered by government with regard to tax and that it imposes on business. This is a measure of the burdens a tax system imposes which are not directly measured as part of the tax charge.

20. The Direct / Indirect Gap The proportionate difference between the amount of tax a country collects from direct and indirect tax. This is a measure of the difference between the tax charged on earnings in a country and the tax charged on consumption in a society. It is a good measure of the degree of regressiveness within a tax system since those on lower levels of earnings tend to spend much higher proportions of their income on consumption than do those on higher levels of income, who have a capacity to save.