

Will HMRC improve its tax gap estimation when new data ...

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I am reliably informed that the UK's [new tax gap data](#) is out this week. More than a decade ago [I was one of the first people in the UK to write about and research the tax gap](#). Much of my work at City, University of London, is now focussed on this issue. Discussing the tax gap is much of the reason for my recent, frenetic, travel.

I will be curious to review what the latest UK offering will be. I suspect, whatever it is, I will think it an underestimate. Don't get me entirely wrong when saying so. I appreciate that the UK does address this issue as comprehensively as it does each year. It is unique in doing so. That this is the case is not, I suspect, unrelated to the well developed state of the tax justice movement in the UK. But there are real problems with what HMRC does, which can be split into two parts.

The first concerns relate to governance. I have considerable concerns with HMRC making the tax gap one of its highest objectives when at the same time it is responsible for establishing the methodology, undertaking the field work and reporting the result without any independent oversight. I know the IMF once reviewed its approach, in part quite critically, but there is little or no evidence that it has the suggestions made by them have been taken into account when revising its tax gap methodologies to date.

This, to me, suggests serious governance weakness that seriously undermines the credibility of the figures. The pressure to reduce the tax gap is very great. Two things suggest that HMRC may have been selective in approaches used to date as a result. One is to be found in the VAT gap, which I think by far the most methodologically sound of the gaps HMRC reports. Even so, there have been almost constant revisions to methodology in the calculation of this gap that explain the greater part of its reduction over the last few years. Real progress in tackling abuse in the shadow economy is very difficult to really appraise as a result as prior years have not been consistently restated.

The next area of concern is to be found in great many categories where it is likely that tax evasion is significant. It is unfortunate that in areas such as the scale of the shadow economy, ghost employment and moonlighting HMRC has, to date, made very little methodological progress and most figures remain what seem to be implausibly small

'illustrative estimates', which as the FT once said, are in effect 'made up'.

There is one other significant concern: with the exception of VAT all tax gap estimates from HMRC are 'bottom up'. In other words the population on which they are based is the tax returns actually submitted plus HMRC's estimate of errors in those not submitted. As I have repeatedly documented, HMRC do not receive tax returns from about a million companies in existence in the UK each year. Of course some of these will have no tax liabilities but HMRC provide no indication of being aware of the scale of this issue, which has been raised with them a number of times, including in the Public Accounts Committee. The IMF also suggested, as I do, that estimates starting from national income estimates should also be prepared.

I would be delighted if HMRC do this in this week's report but cannot imagine the political will to do so exists as yet. In which case I fear these estimates will be seriously underestimated, again. But I can live in hope.