

What I want for the Budget part 1: Some effective tax r...

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Budget week is coming. Following the Paradise Papers there will be hopes that more might be announced on steps to be taken to beat tax abuse. Amongst my many hopes that will be dashed I share this aspiration, but not now entirely in the ways that many NGOs who campaign in this issue do. That's not to say that their demands are wrong or inappropriate, because that would not be true. If, as for many such organisations the aim is to beat international tax avoidance by multinational companies then what is called the [A, B and C of measures called for by the Tax Justice Network](#) is wholly appropriate. They are:

- * Automatic information exchange that works from tax havens,
- * Beneficial ownership of companies on public record, and
- * Country-by-country reporting.

We quite emphatically need all three. I support the demands.

But I am also well aware that they are not enough. In the context of the domestic economy and the need to both regulate that better and beat abuse within it then international tax abuse is only one of the issues that we face. My guess (and everyone does some guesswork here because we're dealing with estimates of what is inherently unknown) is that offshore and international tax abuse is unlikely to make up more than [twenty per cent of the UK tax gap](#). The rest is domestic and I have to say that if effective steps are to be taken then this abuse within the UK has to be tackled as well.

There are five big elements. One is [the existence of shadow companies](#) that trade unregulated within the UK economy because both HMRC and Companies House have entirely withdrawn from making any attempt to regulate the UK company sector.

The second is the cash in hand economy, which persists and is much bigger than HMRC say it is. [See page 19 here](#).

The third is the abuse of UK allowances and reliefs. Domestic abuse is bigger than

offshore abuse in all likelihood. [That's covered from page 43 here.](#)

The fourth is tax loss in capital taxation, which seems to be largely ignored but which is very significant. [That's detailed from page 27 onwards here.](#)

And then there is crime, from deliberate non-payment of tax owing by walking away from companies that owe it, to manufactured abuse. There are a number of references in the link already provided.

It is these elements, plus offshore abuse, that make up my estimate of the tax gap, which is three times the size of HMRC's.

The question is what to do about this. That is always the harder issue. And that is where politicians need to become more savvy, because the problems here are deeply embedded in the UK tax system and so harder to identify and address than offshore abuse (against which the campaign should continue). My suggestions in approximate order of priority are fivefold (I have limited myself).

First the culture of HMRC needs to be utterly reformed. It has a passive senior management far too focussed on delivering cost savings to keep their Treasury paymasters happy than on the task they actually have to achieve of running an effective, and fair tax system. Root and branch reform of the management of our tax system is required. including having HMRC accountable to parliament via a Ministry of Tax, a Minister of Tax in the Cabinet, a Tax Select Committee and an Office for Tax Responsibility to act as internal auditors of HMRC reporting to that Select Committee. [I set out my reasoning here.](#)

Second, we have to properly calculate the tax gap. It is done, half heartedly at best by HMRC at present, most of their data is estimates and they have ignored IMF advice on the issue. Until we know what tax there is to collect we won't get it. [Full Fact investigate this here.](#)

Third, HMRC need more staff, and they continue to need to be based locally. The idea that HMRC can operate from just 14 offices (none west of Bristol in England, north of Glasgow in Scotland and none in East Anglia at all) is sheer madness. It denies people access. And it destroys local knowledge. Tax has to work in the community. Worse, it will undermine good governance in HMRC, result in the loss of a considerable number of older experienced staff who will not now move long distances to keep their jobs, and creates real risk that each office will develop its own working practices from which tax injustice will follow. I argue the case [for a more local HMRC from page 52 here.](#) There is more on this issue [here.](#)

Fourth, we need to secure information on all the companies that are really trading in the UK at any point in time. This is possible but legislation is required to, firstly, require that any bank providing services to a UK company or trust has to supply information to HMRC on the fact that they are doing so, and then HMRC and Companies House must

be legally required to secure information from that company or trust or from those who manage, own, or benefit from it. I have already drafted law to make all this possible. [Full details can be found here](#). I can think of little that can beat the tax gap more than this, and the absurd fact is that we now expect banks in Cayman and Jersey to do this but we do not do it ourselves, which is madness.

Fifth, I strongly recommend that as many tax reliefs and allowances be closed down as possible, or that they be restricted in scope. As I noted recently, pension tax relief now costs the UK £50 billion a year and we have a surplus of savings already. That is madness. I [explain all the issue at length over a range of taxes here](#).

Undertake these reforms and we really begin to beat tax abuse. We have a long way to go.

The next part of What I want for the Budget [is available here](#).