

Funding the Future

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A reader of this blog, who I do not think I have met, secured the following Freedom of Information answer from HM Revenue this week:

2. Government Banking provides a shared banking service to central Government Departments and other public sector bodies, and facilitates inter-departmental transactions to protect public money, and reports overall government cashflow to HM Treasury.

<https://www.gov.uk/government/groups/government-banking-service-gbs>

3. The majority of tax revenue collected is passed directly to the Bank of England then onto HM Treasury. HMRC do however move some money directly to fund the NHS and to the Department of Education to fund Student loans.

4. HMRC's bank account balances are regularly cleared through the day to move tax receipts to the Bank of England and onward to HM Treasury, in order to protect public money and ensure funds are available to the Exchequer.

If you are not satisfied with this reply you may request a review within 2 months by emailing foi.review@hmrc.gsi.gov.uk, or by writing to the address at the top right-hand side of this letter.

If you are not content with the outcome of an internal review, you can complain to the Information Commissioner's Office. You can do this by accessing the following link: <https://ico.org.uk/concerns/>

Yours sincerely,

Freedom of Information Team

It would, of course, be possible to say 'So what?' and leave it at that. HMRC raises money and pays it to the Bank of England.

But that's not a 'So what?' suggestion, in my opinion. That's a big deal. What this answer says is that tax collected goes to the Bank of England, which is no great surprise. HMRC bank there. Admittedly, it then rather bizarrely says the funds get moved to the Treasury. That, of course, is not true, because the Treasury also bank with the Bank of England. Instead what the answer clearly means is that the funds go from the HMRC account at the Bank of England to the Treasury's account, also at the Bank of England.

This does matter. What, of course, it in effect confirms is that tax revenue does not fund government spending. We know that is true: [as I noted a couple of days ago](#), whenever the government spends it does not use your taxes. Instead it tells the Bank of England to make payments for it. In effect, it borrows. That is why we've had a UK government debt since 1694. Literally, the Bank of England creates the money the government spends, which is a process that doesn't involve a printing press. All the Bank does is some double entry bookkeeping. It debits the government's loan account with the amount to be spent, and it credits the government's current account. And the

government then spends the money, just as anyone can when they have a current account in credit. And then what HMRC do is pay whatever they collect into the Treasury loan account at the Bank of England to help clear it. The leftover balance in that loan account is then cleared by the issue of bonds (or gilts) or quantitative easing funding.

In other words ([for my second lesson in national income accounting this morning](#)) the relationship can be formally summarised as:

$$G = T + \Delta B + \Delta M$$

Where:

G = Government spending

T = Net tax receipts

B = Borrowing (and so ΔB is the change in borrowing in a period)

M = Government created money (and so ΔM is the change in that sum during a period).

There is then no direct relationship at all between government spending and tax, which is exactly what HMRC have now confirmed. All they do is help clear the Treasury loan account at the Bank of England, just as government borrowing and quantitative easing funding do as well.

But what that means is that the next time the government say they are spending taxpayers' money you know that's not true because there is, quite literally, no way they can say that given the economic reality of what is going on. They're always spending the Bank of England's money, which is then cleared by taxes, borrowing or QE (which is, in effect, an alternative form of Bank of England created money).

That's not to deny that taxpayers fit into the equation: they do, but not in the way the government says. They fit in in the way the modern monetary theory and I say. That's because what tax actually does is clear the government's debt at the Bank of England, as HMRC says. This is done to limit the amount of new money government spending creates. The aim is to control inflation. But that's a very different purpose to taxes funding government spending, which as HMRC has confirmed, is not what they do.

So thanks to Lee Carnihan for a well placed FoI request. The answer was, maybe, more telling than HMRC realise.