

Short-term revenue considerations should not be the pri...

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I am not always a fan of all the Oxford Centre for Business Taxation does, but its new blog is worth reading and [the latest post](#) by Professor Rita de la Feria is well worth reading. In it she argues that a shortsighted approach to the tax gap is dangerous, saying:

[T]ax fraud has many costs that go beyond revenue loss. Yet our recent approach to combating tax fraud has tended to ignore these other factors, simply equating fraud with revenue loss. Indeed, whilst the last decade has witnessed significant intensification of anti-tax fraud policy worldwide, with an upsurge in both legislative and administrative measures, these measures are primarily designed to combat the revenue costs of fraud, not fraud itself.

As she adds:

Tax amnesties are a good example. Amnesties allow tax fraudsters to voluntarily repay all or part of unpaid taxes without being subject to criminal prosecutions or full penalties. Although they have been present since the 1980s, they have become particularly popular since the financial crisis, as governments have seen them as an efficient method of obtaining additional revenue. Yet tax amnesties do not address fraud itself: distortions to competition will not disappear, neither will tax inequity — as the expected value paid of what is paid by the fraudulent taxpayer is lower — or any potential subsidies to other criminal activity. Not only is the fraud itself not being addressed, there is strong evidence that lack of punishment creates a moral hazard, as it increases the expected value of the fraud. This reduces tax compliance, and so increases tax fraud in the medium term.

I wholeheartedly agree, as I do with this:

A mixture of public finance concerns, tax administration incentives and targets, and the genuine and significant difficulties and costs entailed in combating tax fraud has, progressively, perniciously, lead to an enforcement system that prioritises immediate revenue collection over other factors, such as equity or deterrence. This endangers our

rule of law. Equating revenue costs of fraud with fraud itself, and basing enforcement decisions only on revenue considerations has the potential to undermine the overall credibility of our legal systems.

And this conclusion:

Short-term revenue considerations should not be the primary criterion for tax enforcement. Focusing only on revenue inevitably leads to selective tax enforcement, fatally undermining both neutrality and equity; it leads to further inefficiency, by discrediting the tax system and undermining compliance; and crucially it undermines the rule of law, slowly corroding one of the core values upon which our society is based.

As a result I am more than happy to promote [the associated working paper](#), available here.