

KPMG's tax illiteracy

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I have been [sent an article](#) by Chris Morgan, KPMG head of tax in the UK. It has been written in advance of an event KPMG is holding this coming week on Responsible Tax. I will leave aside any comment on what right KPMG might have to think they can determine what responsible tax might be. I will instead concentrate on what Chris (who I know) says the purposes of tax might be. These, he says, are as follows:

- * **Raising revenue:** It is often said that tax is the price we pay for a civilized society; that is, tax pays for the social goods we desire including health, education, infrastructure and security.
- * **Redistribution:** The inherent inequality in society is undeniable and tax is one way of addressing it. This may be directly, for example, by providing social security payments, repayable tax credits or family allowances. Alternatively, it may be indirectly, through a progressive tax system where the richer bear a greater tax cost.
- * **Changing behaviour:** There are debates about whether a tax should be used to help change behaviour. Some argue it creates inefficiency and tax is not the best tool for addressing such issues. However, most countries use tax at least partly in this way. Firstly, tax can be used to address 'market failure'. An example would be providing accelerated or enhanced tax depreciation for research and development where it is considered that market forces do not incentivize these activities sufficiently. Another example is green taxes based on the principle that 'the polluter pays'. But there are also so-called 'sin taxes' – such as on tobacco, alcohol and gambling – which are designed to discourage certain activities that society considers less desirable.
- * **Supporting the economy:** To a certain extent, fulfilling this objective relies on how the tax law is formulated and how tax receipts are spent. Supporting the economy can include encouraging investment, creating employment, attempting to stabilize prices in the short term, controlling cyclical fluctuation of the economy and assisting the balance of payments.

I have to admit my heart quietly sinks when I read stuff like this. Maybe it is too optimistic of me to think that KPMG might have heard of modern monetary theory (although it's also pretty disappointing that they have not). But two aspects of this list

are simply unforgivable.

First, there is no real hint in here that tax is a critical element in the fiscal policy of any government and so part of macroeconomic management. This is much more than 'supporting the economy'. The KPMG claim massively understates this role, which is absolutely fundamental to what tax does.

Second, the description of market failure is just wrong. Take the first example that Chris uses. To pretend that R&D Tax allowances have anything to do with market failure is simply absurd. They are quite straightforwardly, the result of corporate lobbying to reduce the overall tax rate paid by larger companies in the UK, and it is well known that KPMG was a party to that lobbying process. This representation is then, in my opinion, straightforward misrepresentation of what is actually the case here.

In both cases the suggestions made shoot KPMG's claim to be discussing responsible tax in the foot because they clearly show that KPMG is not willing to engage with the truth of taxation and that, I would suggest, is irresponsible.

For the record, [**this blog summarises**](#) **my view of the role of taxation.**