

Tax expenditures cost the UK £155 billion a year - a...

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I think it worth sharing the following press release from the [National Audit Office, issued this morning](#):

Today the National Audit Office (NAO) publishes a report on tax expenditures. Tax expenditures are tax reliefs with social or economic objectives. Government uses tax expenditures to encourage a range of activities, such as saving for pensions, to encourage business investment, or to support particular sectors, such as the housing market.

HM Treasury officials advise ministers on the design of tax expenditures and HMRC (HM Revenue & Customs) administers them.

Our report found that:

- * Tax expenditures are forecast to cost £155 billion a year in 2018-19 — based on the sum of HMRC's estimates — around 5% more than in 2014-15. In July 2019 the Office for Budget Responsibility, which assesses public finances, identified the cost of tax reliefs as one of four new fiscal risks¹.*
- * HM Treasury and HMRC have improved their oversight, management and reporting of tax expenditures. HMRC has put in place guidance for its staff and committed to publishing more information about tax expenditures. HM Treasury officials now review the value for money of tax expenditures as part of policy making. Monitoring processes are still in development and not yet integrated between the departments.*
- * HMRC has evaluated only a minority of tax expenditures: since 2015, they have published evaluations of 15 tax expenditures — worth £11 billion a year (just 7% of the total annual cost of tax expenditures).*
- * HMRC's evaluations suggest that the effectiveness of tax expenditures varies widely. Evaluations found that seven tax expenditures (costing £3.6 billion) were having a positive impact on behaviour. However, five (costing £5.2 billion) had limited impact. For example, the £2 billion a year Entrepreneurs' Relief had limited impact on the*

decisions of those receiving it.

** Some tax expenditures end up costing much more than government's published forecasts, but HMRC does not monitor or report these differences. For example, three tax expenditures — Entrepreneurs' Relief, Research & Development relief for small and medium-sized businesses and Film Tax relief — now cost around £5 billion a year after large increases in cost. This is much more than any published forecasts suggested. Research & Development relief has been subject to increased abuse.*

** HM Treasury does not publish information on whether tax expenditures are value for money. HMRC has improved its public reporting but does not yet provide the information necessary to assess the value for money of tax expenditures.*

The report makes a series of recommendations for improving the way government manages tax reliefs, and understands and reports on their costs and value for money.

I am not sure that there is much more to add to that, except to note that the tax spend total is actually £400 billion once allowances are taken into account. And what is clear is that these sums are being remarkably poorly managed. The case of research and development tax relief is a case in point, this chart being issued this morning:

Quite clearly this relief is out of control, and the benefit is far from clear.

This is a case of 'much more work needs to be done'.