

### It's time to review tax reliefs - because they c...

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As the Public Accounts Committee has noted this morning:

*The Government knows too little about the tax reliefs it provides: whether they work, or offer value for money, or even how much they actually cost, says the Public Accounts Committee in a report published today, Monday 20 July 2020.*

They added in their press release:

*The ten most expensive UK tax reliefs cost the public purse £117 billion a year - equivalent to giving up around 5% of GDP in foregone tax revenues. But the Government's own, scant evaluation shows that only one of the four reliefs costing more than £1 billion a year has the intended effect on economic behaviour.*

And I would suggest that they were right to note that:

*Among the most expensive, pension reliefs, was forecast to cost £38 billion in 2018-19 - but the Government has not made any assessment of whether that huge cost actually encourages saving for retirement or reduces dependence on state retirement benefits, or whether it just enables those already saving comfortably to save more.*

This was also telling:

*The £15 billion cost of VAT relief on the construction of new dwellings may subsidise new luxury properties, or affordable homes: the Government doesn't know.*

The Committee's suggestion is:

*The Committee is calling for the Treasury to set out clearly the range of UK tax reliefs, with their intended objectives, so proper assessment can begin on whether these breaks are achieving what they're meant to, for the people intended, and providing value for money in doing so.*

I wholeheartedly agree, except for the fact that pension tax relief costs £54 billion a

year because it is wholly inappropriate for HMRC to suggest that current tax income from pensions can be offset against the current cost of pension contributions that will give rise to future pension payments.

I would also add that the Committee was wrong to only consider allowances when undertaking its review. HMRC has no more idea about why tax exemptions and reliefs are given than it has allowances. Add all these together [and the sum is in excess of £400 billion](#).

What the Committee is rightly saying is that a tax system which can give away more in reliefs than most government departments are responsible for spending, and by some considerable margin in many cases, is out of control.

It is essential now that tax spends be reconsidered. I define these as the value of the tax reliefs, exemptions and allowances a government grants to promote social, economic, industrial and other policy objectives. And to do this we really need to do a full UK tax spillover analysis. Andrew Baker and I have argued for this, [here](#), and [here](#).

A tax spillover analysis is a risk assessment tool. It seeks to explain how tax gaps arise. It does so by appraising the way in which one part of a tax system within the jurisdiction being appraised undermines another part of the tax system within that same jurisdiction, or the tax system within another country. It also appraises whether the tax system of the jurisdiction being considered is undermined by the tax system of other locations, treated as a whole. As a result of the way in which tax spillover assessment is designed it identifies the areas of greatest risk within a tax system and, because of the documentation process used in the appraisal methodology, makes it relatively straightforward to identify which issues need to be addressed to improve the quality of the tax system itself, and resulting tax transparency.

If this were done we'd identify why we give tax reliefs, exemptions and allowances, what benefit they provide and what risks they create. At a time like the present that seems by far the most important thing to do improve our tax system. The Public Accounts Committee is taking steps in the right direction.