

The Public Accounts Committee do not believe HMRC's

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The Public Accounts Committee has [published](#) a report this morning on HM Revenue & Customs' approach to estimating the U.K. tax gap. It is pretty damning. The kindest possible interpretation of the PAC's opinion is that they are not convinced that HMRC has got the tax gap estimate anywhere near right.

The biggest criticism made is that HMRC has not, after all the time it has been preparing tax gaps, made enough progress with its statistical basis for doing so. As a result much of the methodology is still described as 'experimental', with at least 20% of the tax gap being subject to such methods. As the FT once put it, HMRC might as well say that they made these parts up.

Another 40% (approximately, because everything about this estimate is approximate) is so uncertain as to its basis of calculation that HMRC can provide no estimate of the confidence limits on its calculation.

And, on those parts of the tax gap where confidence limits can be given (inevitably, the easier bits) those limits are as big as some of the reported gaps. In other words, the confidence that should be placed in the data is low.

All this is before the fundamental error in methodology in HMRC's tax gap approach that I have already [noted this morning](#) that emerged from the hearings on these issues, but which I have been highlighting for years, which the PAC chose not to emphasise is taken into account. This is the result of HMRC using a US methodology that assumes all taxpayers are required to submit tax returns when in the U.K. only about one third of taxpayers do so. This, I believe dramatically underestimates the tax gap.

The errors made by HMRC also include, as the PAC note, HMRC's failure to include tax avoidance that is abusive but about which they feel there is little they can do. This includes most of the abuse of international tax by large companies and much of the tax planning of the wealthy. One could, of course, accuse HMRC of replicating much of the class bias already apparent in their treatment of tax abusers in their tax gap estimates as a result, because it is undoubtedly true in the U.K. that only the 'little people' get

prosecuted for their tax abuse. It could also simply be said that this systemically understates the tax gap and had always done so, again as I have long emphasised.

The committee also notes another issue to which I have given attention in recent years, which is the 'tax policy' gap, which is the amount of tax is not collected because changes to tax law are not made to ensure tax policy is delivered, leaving loopholes to be exploited by those inclined to do so. They are right to make this point, and we are entitled to ask why such bias (which always favours the wealthy) is allowed to persist.

But perhaps the greatest criticism of HMRC made by the committee is that HMRC should not have continually referred to their tax gap estimates as if they were right when there is no evidence to support that claim. That is particularly damning.

The message is abundantly clear. The PAC do not believe HMRC, and they are pretty sure that the tax gap is a lot bigger than HMRC say it is. Join the club, I say: I've been saying this ever since HMRC published their absurd data.