

## Why is HMRC so sure that there is more tax to collect f...

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The Financial Times [has suggested this morning](#) that:

*The British government has launched a crackdown on multinationals suspected of wrongly reducing their UK tax bills by shifting profits to other countries, warning them of investigations and potentially large penalties.*

*HM Revenue & Customs has written to thousands of companies since September demanding they review their so-called transfer-pricing arrangements – under which businesses allocate profits between different countries in an effort to minimise their tax liabilities.*

They add that:

*HMRC this month estimated the 2,000 largest businesses with operations in the UK may owe an additional £34.8bn in tax relating to the 2019-20 financial year – up from £29.9bn 2018-19.*

And:

*HMRC told companies to submit information about their transfer pricing to its disclosure tool, called the profit diversion compliance facility, within 90 days or face investigation.*

*“In investigations we have carried out to date we are often finding that the UK profits do not reflect the value created in the UK,” said HMRC in the letter.*

The obvious question to ask is "how do they know?"

The obvious answer to provide is "country-by-country reporting", which is the tool designed to identify this risk [that I created in 2003](#), and which has been in use by HMRC since approved for this purpose by the Organisation for Economic Cooperation and Development in 2015. It is the only significant factor that explains the difference.

I would, however, add a note of caution. Country-by-country reporting identifies a risk.

It does not prove a case. The FT seems to be aware of this. As they note:

*HMRC's £34.8bn figure is an estimate of so-called tax under consideration: a calculation of the maximum that companies may have to pay on a combined basis following investigations, although generally the amount actually collected is about 40 per cent of this total.*

*Of the £34.8bn, transfer pricing arrangements and "thin capitalisation" accounted for £10.4bn in 2019-20 – up from £6bn the previous year.*

So, how much might be collected? If the Diverted Profits Tax, that allows a higher charge to be made, is used and penalties are applied, maybe the Revenue will reach the £10bn goal. I am aware from my own work that this is within a plausible range of estimation, although I doubt that the upper end is.

The question to be asked, however, is a simple one, and is whether or not HMRC will not concentrate their efforts on this issue? Yield and tax justice demand it. Will the resources be allocated to deliver?