

Tax and benefit fraud - and securing the resources need...

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There are two reports out today that indicate that fraud and official error are major contributors to the UK tax gap.

The first is from the Public Accounts Committee and refers to benefit fraud. [As the press release notes](#):

DWP has “lost grip” on fraud and mistakes in benefit system

- Levels almost doubled in pandemic from already record highs**
- Mistaken overpayments now account for 7.5% of Department’s benefit expenditure**
- Failure of even ambition to recover overpayments means ‘billions of taxpayers’ money is almost certainly lost’**

The level of fraud and error in the benefit system almost doubled during the pandemic from what was already the highest rate since records began. Overpayments of benefits now stand at £8.3 billion, 7.5% of the DWP’s overall benefit expenditure (excluding State Pension) of £111.4 billion.

Fraud and error were rising year-on-year before COVID-19 (and the NAO has qualified DWP’s accounts every year since 1988–89) but the Department’s response to the pandemic opened-up new weaknesses in its systems, which the Committee says “both organised criminals and dishonest opportunistic individuals have used to steal from the taxpayer”, billions of whose money “is almost certainly lost”.

At the start of the pandemic, DWP introduced a number of ‘easements’ - relaxing or adapting usual fraud and error controls - to enable it to manage unprecedented new numbers of claims, alongside implementing public health measures. DWP warned the Committee in evidence in September 2020 that responding to the spike in demand for benefits during the pandemic would increase fraud and error, but the Committee says today that the amount of taxpayers’ money being lost is “simply unacceptable”.

DWP has been investing in data and intelligence systems and in 3,000 new staff, to - among other tasks - begin to tackle years of payment errors that had been uncovered even before the pandemic began. But the PAC “remains sceptical about whether its approach will result in a real and sustained reduction in the levels of fraud and error”, and DWP admitted in evidence that it will be unable to demonstrate any such improvements in 2021-22.

I do not of course expect any system to be free from errors. No one should. Nor are claimant errors unexpected: they will happen., But persistent fraud is an issue and what is worrying about this report is the fact that the Public Accounts Committee cannot fund concern on this issue. If there is something rotten here it is at the very top of the system.

Then there is a report from the National Audit Office on HM Revenue & Customs's debt management during the Covid crisis. [**I will again share the summary:**](#)

Background to the report

As the UK's tax authority, HM Revenue & Customs (HMRC) has played a pivotal role in providing financial support to taxpayers during the pandemic. As the economy went into lockdown, government deferred payments of Self Assessment Income Tax and VAT due between March and July 2020. HMRC paused most of its debt collection activity and set about creating new employment support schemes.

The wider economic impact of the pandemic, and HMRC's decision to suspend most debt collection, has led to large increases in the amount of tax owed to HMRC. Tax debt peaked at £67 billion in August 2020, including deferred payments. This was far in excess of levels seen in the previous 10 years.

Scope of the report

This report considers how well HMRC has managed tax debt through the pandemic – in particular, whether it has adapted sufficiently to the changing nature and scale of that debt and the wider circumstances that affect taxpayers' ability to repay tax. It considers whether HMRC has:

- * adapted its management of tax debt quickly and responsively during the pandemic;
- * understood the impact of the pandemic on taxpayers' ability to pay tax debt; and
- * the capacity and capability it needs to manage tax debt.

Report conclusions

At the onset of the first lockdown, HMRC acted quickly, pausing debt collection to reduce pressure on debtors and working to improve its understanding of how the

pandemic was affecting taxpayers. It subsequently launched its Return to Collection campaign and made it easier for taxpayers to repay debt online. Early indications were encouraging, with taxpayers repaying debt faster than expected and stakeholders welcoming HMRC's understanding tone. However, HMRC also forecasts that higher levels of tax debt will persist.

HMRC faces several years of managing the impact of the pandemic on tax debt and current staffing is unlikely to be enough to manage the increased workload. It made efficiencies before the pandemic but it did not improve overall levels of debt collection and it was writing off more debt. It estimates that adding staff and private sector capacity would have most success in increasing debt collection.

While some debtors have been able to repay tax debt quickly during the pandemic (helped by loans and support from other parts of government), there remains an unknown number of taxpayers who have been badly affected and will struggle to repay tax debt. HMRC must build on its initial work and better understand the resources it needs to manage the scale of the challenge it faces.

The message is, again, that debt - some of it due to fraud- is out of control and the resources are not available to deal with this issue. What is more, there appear to be no plans to make them available.

This is the challenge within tax justice now. In an under-resourced tax system offshore tax abuse is not now the big issue for concern on which tax justice campaigners should be working. If tax is to be properly paid by those who owe it, and if the credibility of the tax and related benefits system is to be kept intact then tax justice should be campaigning for:

- * Better data on these issues;
- * More resources for tax authorities;
- * Better tax gap measurement;
- * Tax spillover analyses to be undertaken.

This is critical to:

- * Fiscal management;
- * The delivery of macroeconomic policy;
- * The control of inflation;
- * Upholding the rule of law;
- * Maintaining the credibility of the tax system.

Substantial revenue is being lost - **and certainly much more than offshore abuse is costing the UK now.**

Unfortunately I am not hearing campaigners talk about these issues. The question is, why is that?