

Funding the Future

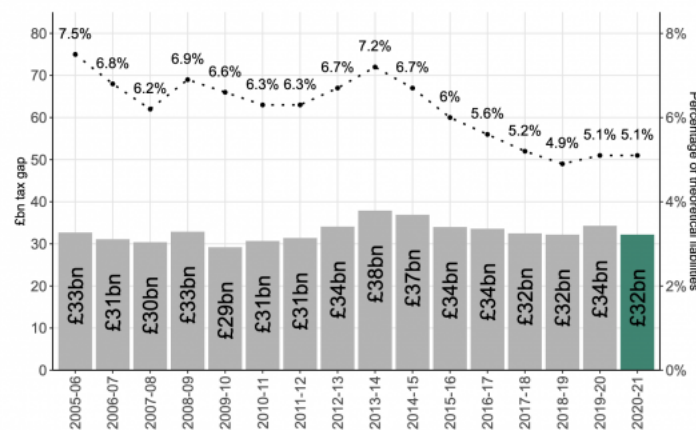
HMRC is marking its own homework again on the tax gap -..

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It is HMRC tax gap day - which is [the day when they admit how much tax they did not collect](#), in their estimation.

My standard joke of the last decade has been confirmed yet again today. Whenever I have been asked about HMRC's tax gap (which I used to be often, because I did extensive work on this issue from 2008 to 2015) I now joke that it's a number very close to £32 billion, whatever the true number might actually be. And so it was again this year:

Figure 1.1: Tax gap by value and as a percentage of theoretical tax liabilities, 2005 to 2006 up to 2020 to 2021



Note for Figure 1.1

1. Figures for previous years have been revised following methodological improvements and incorporating more up-to-date data.

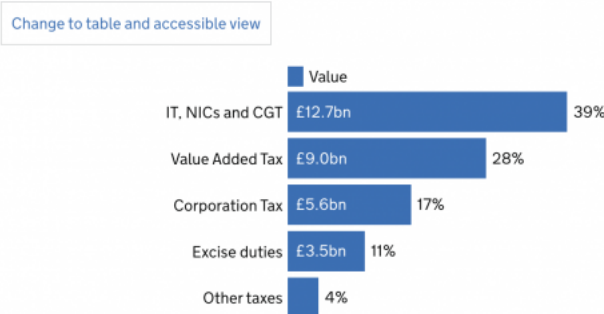
With the greatest of respect to HMRC, they mark their own homework when it comes to the tax gap and it is simply impossible that the answer is always the same.

That is especially true when it comes to a year when Covid fraud was rampant - but apparently, this had no impact on the tax gap (although they do discuss the issue).

Breaking the figures down they suggest these are the taxes impacted:

Figure 1.2: Tax gap by type of tax – value and share of tax gap, 2020 to 2021

Figure 1.2 shows how the tax gap is composed of different taxes. It shows that 2 components, one covering Income Tax, National Insurance contributions (NICs) and Capital Gains Tax at 39% and the other VAT at 28%, account for two-thirds of the tax gap. These two components also have the two largest total theoretical tax liability values, as shown in Figure 1.3. Corporation Tax, Excise duties and Other taxes account for the remaining portion at 17%, 11% and 4% respectively.



And these are the HMRC 'customers' (I hate that term) who caused the loss:

Figure 1.5: Tax gap by customer group – value and share of tax gap, 2020 to 2021



Notes for Figure 1.5

- 1. Totals may not appear to sum due to rounding to the nearest £100 million or 1%.
- 2. '%' refers to percentage of the total tax gap.

No surprise there then. But all the flaws [I have mentioned in earlier years remain](#). In particular look at some of the detail and the risk assessment linked to it:

Tax gap: detailed breakdown

Table 1.1: Tax gap components 2020 to 2021 estimates

Tax	Type	Component	Percentage tax gap	Point estimate (£ billion)	Uncertainty rating
Value Added Tax	Total VAT	Total VAT	7.0%	9.0	Low
Excise duty	Tobacco duty	Cigarette duty	8.6%	0.7	High

There are some absurd claims in here. That VAT is subject to low risk is ridiculous: this is impossible when overall small business makes most of the errors. It also suggests that HMRC knows the exact size of the shadow economy, and I am quite sure that they do not.

I am very curious to know why large partnerships are high risk when smaller businesses are not: again, whatever games large partnerships might play I simply do not believe this.

And the chance that just £2 billion is lost a year to tax evaders - out of £635 billion paid - is utterly ludicrous. That's a 0.3% evasion rate.

I have argued before for an Office of Tax Responsibility to properly appraise the work of HMRC, the tax gap and now tax spillovers. It hasn't happened. But a government that was serious about this would be putting one in place. All the time they don't we have to assume that they're happy for the tax abuse to continue, and that begs the question, why is that?