Funding the Future

Reforming the organisation, goals and funding of HM Re...

Published: January 12, 2026, 10:26 pm

I have this morning published the last substantial chapter of the Taxing Wealth Report 2024. Some introductory and concluding sections have still to be completed, but this note focuses on the need to reform the organisation, goals, and funding of HMRC and is the last that makes substantial recommendations that will be included in the report.

When I started work on the Taxing Wealth Report 2024, I thought that this section would be one of the first to be completed, largely because I have looked at issues relating to the underfunding of HMRC since 2010. However, as my research on the subject developed it became clear that to discuss funding in isolation made no sense because to do so would have ignored the context within which this matter is of concern.

As the House of Commons Public Accounts Committee has noted in the latest of their many reports on the failings of HMRC, published this week, there is a long-term and marked downward trend in the quality of service supplied by HMRC to taxpayers. They also imply that many of the claims that HMRC's management is making concerning its own performance have to be open to doubt.

Within this context, looking at the claimed improvements in efficiency that HMRC suggest have resulted from the substantial reduction in its workforce cannot be justified. HMRC's costs are now rising, significantly. This issue is addressed in detail in this chapter.

Worse, a detailed review of the tax gap, the reduction which is used by HMRC to justify its supposed ever-increasing control of tax collection, cannot support that claim. HMRC admit that around 30% of corporation tax owing by smaller companies goes unpaid each year. They also accept that 18% of tax due by unincorporated small businesses goes unpaid, which they suggest to be a significant improvement on 2015, when more than 30% of those taxes went unpaid. However, data on on-time tax return submissions and data published by HMRC in 2022 showing that they had discovered that more than 8% of the UK population might be involved in the shadow economy, almost all of whom are self-employed, sharply contradicts this claim of an improvement performance in this area. As such this tax gap is highly likely to be at least as large as that for small limited liability companies.

This evidence then suggests that those most in need of help from HMRC to comply with their tax obligations are not getting that help. As a result of HMRC economies, tax offices have been closed, face-to-face taxpayer support has ended, telephone helpline support has become incredibly difficult to access, and online help has proved to be no substitute. Txaayers have been left bewildered by their obligations and alienated from HMRC, and it is not surprising that tax gaps are out of control.

That this is the case might also be due to the fact that HMRC is managed as if it is a large public company and not as a public service. The fact that all its non-executive directors represent the interests of the wealthy and large companies only reinforces the inappropriateness of its focus.

The consequences of all this are that a substantially more radical approach to the reform of HMRC is required than is currently proposed by the House of Commons Public Accounts Committee. It is time to re-organise HMRC so that its focus is on providing taxpayers with the support that they need to meet their tax obligations. At present, far too many of those taxpayers are alienated by IT systems and the demands that they create that taxpayers, quite reasonably, cannot comprehend.

It is, as a result, time for HMRC to restore its local office presence so that people can be provided with face-to-face advice on their taxes.

In addition, HMRC also needs to restart its programme of support to small businesses that are struggling to meet their obligations by reinstating its programme of active engagement with small traders by reviewing their books and records on-site to make sure that they are tax compliant.

What all this also implies is that HMRC's headlong rush towards Making Tax Digital is not just inappropriate but is the totally wrong way in which the UK should manage its tax system.

A tax system should be a public good, meaning it is a service supplied without the intention of profit arising by an agency that is seeking to maximise public well-being. The UK tax system does not meet that criteria at present, largely because of failure on the part of HMRC's senior management.

We need a radical overhaul of the management of the UK tax system if it is to be fair, transparent, accountable, open, accessible, and dedicated to creating equality within the UK because everyone is required to pay the taxes that they owe.

The summary of this chapter, which is of 33 pages in total, is noted below. A PDF version of the whole chapter is available here.

A copy of this chapter will be sent to the Public Accounts Committee.

Brief Summary

This note suggests that:

* ***HM Revenue & Customs governance structures are no longer fit for purpose. They are based on the ethos of a public company and are focused almost entirely on meeting the needs of large companies and the wealthy. Both sectors are well represented amongst its non-executive directors; no other group in society is. That is no longer acceptable.***

* ***HM Revenue & Customs has for too long emphasised cost control as its focus of concern rather than serving taxpayers or raising all the revenue owed to it. This has been inappropriate and has prevented the creation of a tax system suited to the needs of society in the UK.***

* ***HM Revenue & Customs' drive to reduce the cost of collection of tax in the UK has largely failed but has as a consequence:***
* ***Seriously reduced the quality of service that it supplies to taxpayers in the UK, with the quality of everything, from face-to-face services to the answering of telephone calls, to the time taken to reply to letters, all deteriorating significantly leaving many taxpayers without any of the help that they need to pay the right amount of tax that they owe.***

* ***Seriously reduced the number of staff at HM Revenue & Customs.***

* ***Reduced the average real pay of staff at HM Revenue & Customs.***

* ***Considerably reduced the number of tax investigations undertaken each year.***

* ***Lost control of some major parts of the tax gap, which is the difference between the tax that should be paid and the tax that is actually paid in a year.***

* ***Tax gap measurement has been used by HM Revenue & Customs' management as the indicator of its success, but as has been explored in other parts of the Taxing Wealth Report 2024, the claims made with regard to the tax gap in general are open to question.***

* ***One of the two tax gaps where it is very apparent that matters have got out of control is that for small companies, where around 30 per cent of corporation taxes owing now go unpaid each year, which is way in excess of any reasonable level of loss. The likely annual cost of this loss is now £5.9 billion per annum.***

* ***Another tax gap that is likely to be out of control is that for the 5 million small businesses that pay their taxes via the income tax system. HMRC say this tax gap has fallen from around 32.5 per cent of these taxes owing going unpaid in 2014 to only 18.5 per cent being unpaid now. They have not, however, provided any convincing reason for this improvement in taxpayer compliance, which is not matched by improvements in equivalent rates for small companies or in the overall rate of timely tax return submission, half of which returns come from self-employed business owners. The claimed current rate of loss is unlikely to be realistic in that case and an excess loss of maybe £3.4 billion is likely to arise as a result in this area, largely because HMRC has withdrawn from local tax offices that previously supported these taxpayers and from active monitoring of their onsite activities through their now largely abandoned programme of business compliance visits.***

* ***In combination, the losses from just these two tax gaps amount to maybe £9.3 billion and can be attributed to HM Revenue & Customs mismanagement of its activities in the community, whether that be through maintaining local offices where face-to-face help is available or by visiting businesses at their own premises.***

* ***It also seems that HM Revenue & Customs' claims for the benefits of its Making Tax Digital programme seem to be seriously overstated, which is a fact repeatedly noted by the House of Commons Public Accounts Committee. The costs of creating this programme appear to be out of control. The costs it imposes on business taxpayers are excessive. Worst of all, it is likely to alienate millions of people from the tax system and most likely increase the tax gap as a result, rather than reduce it. It also makes the UK a significantly worse place in which to run a business, which is likely to impose serious costs on society at large.***

* ***As a result, this report recommends that:***
* ***That HMRC reforms its governance structures and objectives.***

* ***HMRC restore its local office help centre presence in towns and cities across the UK, and widely advertise the availability of this support service.***

* ***HMRC's should restore its programme of site visits of businesses to monitor***

their tax compliance to cover checking both PAYE and VAT records.

* ***HMRC should stop the rollout of its Making Tax Digital programme so that no business that is not VAT registered will never be enrolled in this programme.***

* ***The cost of restoring these services will be very much less than the sums that might be raised by reducing the two gaps that have been noted to reasonable levels (i.e. those that were maintained during periods when HMRC was better resourced in the past), but since some of those sums capable of recovery have already been noted elsewhere in the Taxing Wealth Report 2024 no additional account of such recovery is made here. That said, because other tax gaps would also undoubtedly improve if HM Revenue & Customs were to re-establish its presence in UK towns and cities the likely cost of this programme – which might be £1 billion a year, or twenty per cent of the current cost of running HMRC - is not taken into account either. Nor is the likely significant gain from reducing taxpayer strain taken into consideration, or the gain from making the UK a more tax-friendly environment, to which considerable harm has been done since 2010.***