

# Rachael Reeves will not close the tax gap by looking ov...

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Rachel Reeves is making an announcement today on how she will plug the gap that she thinks exists in her financial plans as a consequence of Jeremy Hunt stealing her intention to close the domicile rule.

As the [Guardian notes](#) this morning, she has resorted to the age-old intention of politicians who do not know how to balance their supposed books by claiming that she will close the tax gap.

Firstly, let me make it absolutely clear that I welcome that intention. It is entirely appropriate. I discuss it at length in the [Taxing Wealth Report 2024](#). I look at the issue in chapter 15 of that report, where in four subsections, I deal with the need to better estimate the tax gap, to undertake tax spillover assessments, to set up an Office for Tax Responsibility to monitor delivery on this issue, and to reform HM Revenue & Customs so that its presence in local communities might be recreated so that it might deliver on this promise.

It would also be well worth looking at chapter nine, and in particular subsection 9.1 on reforming the administration of corporation tax and subsection 9.3 on the reforming of Companies House, both of which are essential if we are to close the tax gap.

In that case, given my enthusiasm for this topic, it would be churlish in the extreme to not welcome Rachel Reeves' intention to tackle this issue.

That said, excepting her comments on domicile, which are appropriate because the Tories are very clearly trying to manipulate the replacement rules for this in favour of the wealthy, Reeves' comments this morning do appear to have an inappropriate focus to them.

In particular, she is highlighting another age-old mantra, which is that we must pay great attention to offshore tax abuse if the tax gap is to be closed. Whilst there will, inevitably, be some outstanding opportunities for tax investigations during the period when the domicile rule is closed as matters, previously unseen come to light, I overall

doubt that this is where the focus of attention for HMRC should now be. After all of my years campaigning on offshore, I am not saying the issue has gone away. It has not, but it has reduced, considerably. All the effort expended on it has now paid a considerable return. As a consequence, the evidence is now very strong that the problems in tax recovery are not to be found offshore. Nor, by and large, are the problems created by tax avoiders. It seems that HMRC is catching up with them. Instead, the problem that we face is in collecting tax from those who owe it and choose not to declare it within the domestic economy.

As I note within the Taxing Wealth Report 2024, whilst the overall claim of HMRC is that the tax gap is falling (which I doubt) what is also unambiguously true is that the tax gap for the self-employed and small businesses is very high, and in the latter case, in particular, rising rapidly.

In the case of small companies, it is estimated that 30% of all corporation tax liabilities owing or not now paid. Although HMRC never seems to extrapolate a tax loss in one tax to imply that there must be a consequent loss of revenue in another tax, it necessarily follows that if this is the case, then those same companies that do not pay the corporation tax that they owe must also fail to pay the VAT and PAYE that they owe, meaning that it is my belief that both those estimates are seriously underestimated as a consequence. In addition, I do not take seriously HMRC's claim that the tax gap amongst the self employed is now only 18.5%, representing a decline over the last few years from a peak of 32.5%. If small companies fail to pay 30% of the tax that they owe there is no reason to think that small businesses do anything significantly different.

If Rachel Reeves is serious about closing the tax gap, this is where she would start looking for money. And, as I note in the Taxing Wealth Report 2024, if she wants to collect the significant sums involved in this loss, then she would require that HMRC begin to reopen its local tax offices because only by having a presence in the communities that it serves, and which pay tax, can it understand who is not paying that money, and who is helping them to evade it.

Simultaneously, she should be transforming the information that UK banks are required to submit to HM Revenue and Customs each year so that all those companies trading in the UK can be properly identified, and she should be massively increasing the resources available to Companies House to increase the effectiveness of its operation in tracking down corporate data in the UK.

There is a real opportunity to reduce the tax gap in this country, but Rachael Reeves will not close the tax gap by looking overseas. Pretending that the problem is elsewhere is no longer realistic. It's in her own backyard.