

Funding the Future

If you look in the wrong place, as Labour plans to do, ...

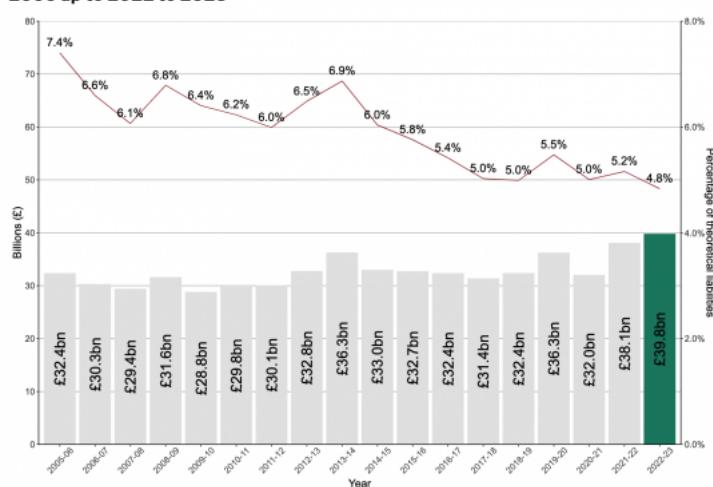
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HM Revenue & Customs [published its new tax gap figures](#) yesterday.

They are nonsense, as they always have been. I have explained why here [as part of the Taxing Wealth Report 2024](#), and I do not propose to repeat the suggestions now. Please follow the link for an explanation.

The [actual data is summarised by HMRC as follows](#):

Figure 1.1: Tax gap by value and as a percentage of theoretical tax liabilities, 2005 to 2006 up to 2022 to 2023



HMRC claim that, in percentage terms, they are doing better than ever.

They are not, I am quite sure.

Look at this data:

Figure 1.2: Tax gap by tax type as a percentage of total theoretical tax liabilities

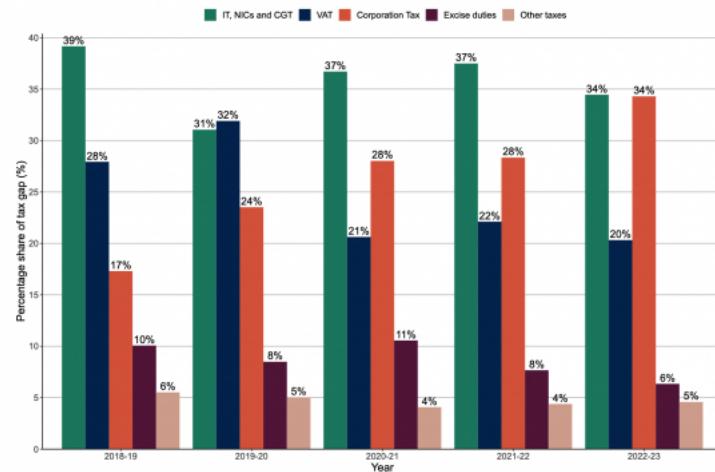


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The corporation tax gap is totally out of control.

But then, also look at this:

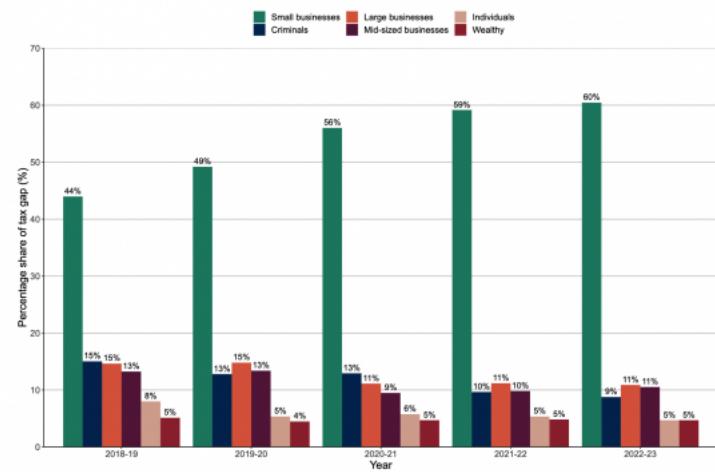
Figure 1.3: Tax gap by type of tax – share of tax gap, 2018 to 2019 to 2022 to 2023



Apparently, at the same time as business is not paying its corporation tax liabilities, it is paying a great deal more of the VAT that it owes. That makes no sense at all. Behavioural changes of the sort implied by this data do not happen.

Have a look too at the data on that unpaid corporation tax:

Figure 1.4: Tax gap by customer group – share of tax gap



It's all down to small businesses, but apparently, they only do not pay their corporation tax. That cannot be true. If profits are not taxed so are turnover and payroll untaxed, but the tax gap data does not reflect that fact.

This is why the analysis is absurd. It fails to follow through on such issues.

But it's also absurd because tax avoidance is massively understated. For example, all

the things that Labour is focussing on as supposed tax avoidance - including non-doms, carried interest and VAT exceptions on private schools are not in the tax gap calculations, although they would be if I had my way, and we also did proper tax spillover analyses. [See the Taxing Wealth Report 2024 on that issue, as well.](#)

I spoke to the Guardian about this issue yesterday. [They noted these comments by me:](#)

Richard Murphy, a tax expert, said the assessment of tax losses to the exchequer was “seriously underestimated” and that Labour’s plans would not improve the situation. He said the amount of tax not being collected could be closer to £100bn.

And I commented on Labour's failure to address the real issues in the tax gap in its election manifesto:

However, Labour’s plans target the wealthy, Murphy said, and do nothing to address tax avoidance among small businesses. “The tax abuse scandal is among white-van men,” he said. “But politicians don’t want to hear that as white-van man lives in their constituency.”

The last point was based on a comment from a former Labour MP.

So. will Labour beat the tax gap? Not with its existing policies. And not without spending £1 billion to reopen HM Revenue & Customs offices in the community to get closer to the source of the problem, which is something that the LibDems have picked up [from the Taxing Wealth Report 2024](#). If you look in the wrong place, as Labour plans to do, you will never find the tax gap.