

f Rachel Reeves wants more money she needs to crack do...

Published: January 12, 2026, 8:59 pm

The National Audit Office (NAO) [published a report this morning](#) that says:

The UK is losing billions of pounds a year in revenue due to tax evasion among small businesses, which can easily exploit weaknesses in government systems, according to a new National Audit Office (NAO) report on tax evasion in retail.

As well as raising public funds, reducing tax evasion encourages a level playing field between businesses by denying evaders an unfair competitive advantage.

According to HM Revenue and Customs (HMRC), while the overall level of tax evasion has stabilised in recent years, it has increased among small businesses. The tax authority has not estimated the scale of evasion by sector, but it has targeted campaigns at some high-risk retailers including takeaways and sweet shops.

HMRC also does not have a specific strategy to clamp down on tax evasion, which means it lacks a focus on, or explicit objective for, its performance in this area. Instead, its aim is to stop overall levels of non-compliance increasing.

This means there has been too little emphasis on some widespread forms of tax evasion in the retail sector like electronic sales suppression (ESS) and abuse of the insolvency process to avoid paying tax debts (known as phoenixism).

Although HMRC estimated that phoenixism accounted for 15% of its tax debt losses in 2022-23 (equivalent to more than £500 million), the Insolvency Service disqualified only seven directors specifically for phoenixism between 2018-19 and 2023-24, out of a total of 6,274 disqualified directors.

HMRC has had success in raising more tax from online retail by making online marketplaces liable for Value Added Tax (VAT) on sales by overseas retailers, a move followed by other countries. It now estimates that it collects at least £1.5 billion more in VAT a year – five times what it initially predicted.

However, significant gaps remain in checks around online retailers, and overseas

companies can falsely present themselves as UK-based to evade VAT.

Weaknesses in company registration criteria present another significant risk. Since 2011, when online incorporations were introduced, it has been quick and easy to set up UK companies online from anywhere in the world, leaving the UK vulnerable to tax evasion from fraudulent businesses.

Government introduced tighter requirements at Companies House from March 2024. But some new measures will not be in force until Companies House develops the necessary systems and capability, or until further secondary legislation is in place (e.g. verifying directors' identities).

In 2022-23, there was a surge in company registrations ahead of these stricter rules being implemented. Of the registered companies declaring themselves as retailers, 42% were incorporated since January 2023 compared with 23% of companies in all sectors. This may indicate a potentially higher risk of fraud in the retail sector.

HMRC has also not yet used all the powers it has secured to tackle evasion in retail. It should evaluate the extent to which it is using these powers, establish what barriers it faces, and identify any gaps that limit the actions it can take.

Why note this at such length? There are three reasons.

First, I have been saying all this for decades. It is good to see that it is being acknowledged.

Second, it replicates findings in the Taxing Wealth Report 2024, [here](#) and [here](#). In both cases, the background notes contain details.

Third, crucially, this report links tax evasion to failures at Companies House, an issue I [also looked at here](#) in the Taxing Wealth Report 2024.

Fourth, the NAO suggests that HM Revenue & Customs has no strategy to address this issue, which is a dire indictment of its senior management.

HMRC needs to undertake better tax gap assessments. [See my suggestions here.](#)

And it needs to undertake tax spillover assessments. [Likewise, see my suggestions here](#)

Then we might collect at least another £12 billion a year - and maybe rather more.

As it is, HMRC is floundering, and fair competition in the UK economy is being undermined. You could not make up a more stupid scenario when every government claims to be on the side of small business. Their actions clearly say otherwise.

And yes, I do feel someone is noticing what I am saying when I see the NAO replicating a lot of it. The effort is not in vain.