

Labour should be picking on tax cheats

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In this morning's video, I argue that instead of picking on children in poverty and pensioners needing support with fuel bills to pay the price for the Tory economic aftermath, Labour should be picking on tax cheats to fill its coffers, as the National Audit Office agrees, and as I show in the Taxing Wealth Report 2024, would not be hard.

<https://www.youtube.com/watch?v=UdcuOVosw70?si=f920pOYSHWAuaN0S>

The audio version is here:

https://www.podbean.com/player-v2/?i=c7bfv-16cc866-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=c73a3a&font-color=&logo_link=episode_page&btn-skin=ff6d00

This is the transcript:

We now know that Labour is going to pick on pensioners. But it shouldn't be. It should be picking on tax cheats.

I have spent a great deal of time over the last 15 or more years looking at what I call the tax gap. The tax gap is the difference between the amount of money that HM Revenue and Customs should collect in the UK each year and the amount of money that it actually collects each year.

Now, soon after I started work on this issue, and possibly because I had started work on this issue with the TUC way back in 2008, the Revenue started publishing annual tax

gap estimates for the UK from 2010 onwards. And they've done so ever since, which, to their credit, is better than any other tax authority in the world.

But there is a problem with their tax gap estimates. They're crap, by which I mean they are Completely Rubbish Approximations to the truth.

Why? Well, first of all, because the Revenue marks their own homework, and they have a mysterious bias towards finding that they've done well.

And secondly, because as the National Audit Office has said this week in a new report that looks at the tax gap with regard to small businesses, the Revenue has no real idea what tax it does not collect because it has no adequate methodology to work that out; something that I've been saying since 2008.

So, if Rachel Reeves was desperate for more money, and she claims she is, which is why she's had to pick on pensioners, she should instead be investing a great deal more in HM Revenue and Customs and should be asking it to do much better when it comes to closing the tax gap.

How much more does she need to invest? I suggest at least a billion a year. That would actually increase its capacity by at least 20 per cent and restore tax offices in most cities and large towns in the UK, which I think is essential because people need to see the Revenue working in their communities and need to have the opportunity to go to see someone face to face to sort out tax problems, and simply get advice.

But more than that, the Revenue needs to have a lot more well-trained people. In 2005, they had a hundred thousand staff. Recently, that figure was only just over 60,000. Now, I recognise that Labour says they might increase the numbers now, although the plans seem a little vague, but that's not enough to meet demand.

We know that. People are kept on the phone for far too long.

Letters have taken years to reply to in some cases. Indeed, I waited on a tax case that I was managing for over two years to get a reply to a letter from HM Revenue and Customs not that long ago.

So, the Revenue are clearly not able to manage the workload that they have.

And that's got nothing to do with working at home or anything like that. It's simply they don't have enough people.

And, I would add, far too few of those people are well enough trained in tax, let alone accounting, to take on the task of really understanding the cheating that is taking place inside the UK tax system.

But most of all, the Revenue doesn't recognise that the biggest source of cheating

inside the UK tax system is the failure of Companies House, the UK agency that records the information that exists around UK companies but which does not regulate them, to operate an effective system of management of UK companies.

You can still form a UK company for a very modest price. It went up recently. It's now around 35 pounds. It used to be only just over 10 pounds, but the point is the cost is insignificant.

You don't have to prove your identity to actually form a UK company. You can do it literally online with no questions asked. And hundreds of thousands, something like 800,000 of these companies are formed a year.

That makes no sense. There is no other economy of the size of the UK that requires new companies to be registered in that scale. So why are so many formed?

Well, I would suggest that is because we have no effective company regulation in the UK. Because Companies House does not take on that task, and no minister seems willing to ask them to do it, there is simply a Wild West atmosphere with regards to company regulation in this country, where anything goes.

And anything is going because what we know is, even with the limited data that they have, HM Revenue and Customs think that at least 30 per cent of all corporation tax owing by small companies is not paid.

Now I'm quite willing to believe that figure, I think it might be bigger. But what they don't then do is extrapolate from that the fact that it is very likely as a consequence that significant amounts of VAT are also not paid by those small companies and, of course, PAYE that would be owing on the extraction of rewards from those companies by their directors who are also their shareholders.

In other words, there are multiple tax losses that arise, meaning that the total tax gap arising from the use of these shadow companies, which exist throughout the UK economy, is much bigger than anything that the Revenue estimate.

And then there are the self-employed as well, where the Revenue reckoned 18 per cent of all tax liabilities are not paid, a figure that they claim has fallen from well over 30 per cent in 2013, a behavioural change which is about as likely as tides stopping flowing up the River Thames.

So, we have massive problems with unpaid tax in the UK small business economy. And this really matters. It matters most of all to other honest small businesses because the cheats are undermining them. If they don't pay tax, they can underprice those companies that do pay tax, and we end up with an unlevel playing field on which the small businesses of the UK compete.

The [honest] are forced out of business, the dishonest businesses win, at least in the

short term, but the consequence is that we have a very high turnover of small businesses, very few of whom invest, not least in training, and we end up as a result with an underdeveloped workforce, an under-invested small business community, a lack of productivity, and a failure of UK small business to compete on the international stage.

We are literally destroying the capacity of UK small businesses because we're permitting cheating on such a rampant scale.

Could Rachel Reeves go and collect more tax from small businesses? I think something like £12 billion pounds that could be recovered a year. But I stress that is an estimate because some cheats will always carry on whatever we do, so you have to make a bit of a guess around this number. But that's sort of my scale of estimate, and I think it's a reasonable one, which is, of course, more than enough to cover the £1.5 billion she will save by taking away the pensioner's winter fuel allowance.

But more than that, this would then provide the funds to actually give to honest small businesses to do investment; to support their training programmes; to ensure that they can be sustainable in the long term; to help them with the business advice that they require, and so on.

Wouldn't that be a virtuous circle? I think so. I think it would be the most beneficial thing that Rachel Reeves could do to help small business in this country, which nobody has ever tried. But you have to be on the side of the honest and not on the side of the cheats. And right now, we have a government that for some reason, is still deciding that cheating is good, that honesty needs to be punished, and, like pensioners, those who've done their best need to go to the wall.

Labour really could do better than this.