

Will Reeves reform HM Revenue & Customs?

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Yahoo News appears to be just about the only media [with this news story this morning](#):

Tax dodgers will be targeted by Rachel Reeves, who will say she “will not tolerate the minority” who avoid “paying what they owe”.

The Chancellor will announce that a further 200 new compliance officers have been offered roles at HM Revenue and Customs (HMRC) to begin in November as part of a plan to recruit 5,000 more taxmen over five years.

The move is part of a plan to close the £39.8 billion “tax gap” between what is owed and the amount actually collected.

Politely, this is pathetic.

As I noted in the [Taxing Wealth Report 2024](#), the reform of HMRC needs to be radical. Two hundred new compliance officers and 5,000 new staff will not solve the problems with the under-collection of tax in this country, which Labour appears no more interested in solving than its predecessors were. The reasons for this are very hard to fathom unless they think that tax abuse is of benefit to society: the reforms I suggest are bound to pay for themselves despite costing at least £1 billion a year.

The reforms I proposed are comprehensive. I said this [in my summary of them](#):

* *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.*

I suspect that we will hear little like this today.