Are the wealthy ripping off HM Revenue & Customs?

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The National Audit Office (NAO) issued a report yesterday that suggested:

HM Revenue & Customs (HMRC) defines wealthy individuals as those earning more than £200,000 a year, or with assets over £2 million, in any of the last three years. In 2023-24, HMRC identified approximately 850,000 individuals as wealthy, around 2% of individual UK taxpayers.

They added:

Wealthy individuals often have complicated tax affairs covering multiple taxes. They often have a wide spread of tax liabilities on both their income (in the form of Income Tax and National Insurance) and assets (in the form of Capital Gains Tax, Inheritance Tax and stamp duties).

Wealthy individuals may adopt complex and sophisticated tax planning to reduce these liabilities. The complexity of their tax affairs may increase the potential for non-compliant behaviour, either deliberately in the form of tax avoidance or evasion, or mistakenly, by applying tax rules incorrectly. HMRC therefore treats wealthy individuals separately from other individual taxpayers.

That explains why the Revenue focuses more attention on them, and the NAO has paid attention to this issue, and most especially HMRC's understanding of the risk of non-compliance among wealthy individuals.

The NAO concluded that:

Wealthy people contribute significant amounts of tax revenue to the Exchequer, but the complexity of their affairs makes it more difficult to get their taxes right and presents more opportunities to deliberately not pay enough. HMRC has responded to this by becoming one of the few countries to publish annual estimates of the tax gap for wealthy individuals, which HMRC estimates to have been stable and low.

They note that:

HMRC deserves credit for increasing the amount of compliance yield. Its move towards more upstream casework has been an important innovation and has resulted in improved returns.

I share in giving them credit for publishing these estimates. The problem with them is that they have always been methodologically weak, and they have now become exercises in routine management self-congratulation. The farce is reinforced by the fact that the tax gap has always been a figure of around £35bn.

The NAO appear to have noticed this, saying:

While it is difficult to make precise comparisons between compliance yield and the tax gap, the scale of the increase in compliance yield from the wealthy raises questions about whether underlying levels of wealthy non-compliance are higher than HMRC previously thought.

I agree: it suggests a serious prior underestimation of abuse.

They then added:

There is too much uncertainty around the tax gap estimate for this group, notably for offshore wealth, to be confident that non-compliance is not far higher than HMRC has detected. HMRC is working to improve its estimate of the wealthy tax gap.

It's only taken fifteen years to get this far. The same is true on this:

HMRC has recognised it needs to give the risk posed by wealthy individuals much greater prominence. Its work to tackle wealthy non-compliance is dispersed across different parts of HMRC, and it should ensure it has a comprehensive and ambitious strategy to tackle non-compliance among the wealthiest individuals. It should also provide sufficient transparency to give greater confidence to the wider taxpayer base that all taxpayers contribute their fair share.

I have been asking for this since 2008. Better late than never, I guess.

I asked ChatGPT to summarise my own, fairly considerable, output on this issue, and it offered this. It's not completely correct, but it will do:

Richard Murphy on the Tax Gap: A Summary

Richard Murphy has written extensively on the UK tax gap, and is credited with helping to bring the concept into mainstream UK political debate. His work challenges both the methodology and ***scope*** of HMRC's approach, and he offers a ***broader conceptual***

framework for understanding the tax gap.

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1. The Core of Murphy's Argument

Murphy contends that HMRC significantly underestimates the UK tax gap, both in ***magnitude*** and in ***definition***. He criticises HMRC for producing what he sees as ***narrow, overly technical, and politically convenient estimates***.

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2. Criticism of HMRC's Methodology

A.

Over-reliance on Bottom-Up Data

Murphy argues that HMRC relies too heavily on bottom-up data, such as:

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Tax returns,

*
Audit samples,

*
Compliance checks.

This bottom-up approach tends to:

*
Understate the tax gap, especially where no returns are submitted (e.g., in the shadow economy),

*
Miss systemic or structural avoidance,

*
Assume compliance where there is no audit or investigation.

B.

Call for More Top-Down Approaches

In contrast, Murphy advocates for more top-down methods, such as:

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National accounting data (like ONS GDP figures),

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Sectoral income estimates,

*
Macro-level comparison of expected vs. reported income or tax.

These provide an aggregate view of how much tax should be collected, offering a ***counterbalance to incomplete self-reported data***.

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3. The Five-Tier Tax Gap Model

Murphy argues for a five-part model of the tax gap, which he believes provides a more comprehensive understanding. His categories are:

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Tax avoidance – Legal exploitation of loopholes to reduce liabilities.

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Tax evasion – Illegal non-payment or underpayment of tax.

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Tax not paid due to the hidden economy – Income or business activity that is entirely unreported.

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Tax lost due to non-collection – HMRC failing to pursue or enforce debts.

*
Tax policy gap – Revenue lost because of deliberate policy choices (e.g. low rates, exemptions).

Note: HMRC typically excludes the fifth category (the tax policy gap), which Murphy sees as a major omission. He believes this reflects political decisions that deprive the public sector of funds.

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4. Key Criticisms of HMRC

A.

Political Framing

Murphy accuses HMRC of crafting a politically safe narrative that downplays systemic issues. By keeping the tax gap estimate modest, HMRC reduces pressure for:

*
Increased enforcement,

*
More aggressive policy on avoidance,

*
Greater investment in tax administration.

B.

Lack of Transparency

He criticises HMRC's opaque methods, limited disclosure of assumptions, and ***inaccessibility of raw data***.

C.

Underestimation of Corporate and Wealthy Tax Abuse

Murphy argues that corporate tax avoidance and offshore evasion are drastically underrepresented in HMRC's figures.

D.

Neglect of Enforcement and Resources

He regularly highlights understaffing at HMRC, noting that ***budget cuts have***

weakened its capacity to pursue complex or large-scale cases.

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5. Policy Recommendations

Murphy calls for:

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Greater use of top-down tax gap estimation, especially for sectors prone to underreporting.

*
Adoption of his five-part model to reflect the true scope of tax losses.

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More HMRC staffing and funding.

*
Transparency and independent oversight of tax gap methodology.

*
Political debate about the tax policy gap, including the ethics of tax planning and rate setting.

Conclusion

Richard Murphy presents a broader, more critical, and more politically engaged view of the tax gap than HMRC. He critiques their reliance on bottom-up data, proposes a five-tier model to better reflect real losses, and calls for systemic reform to make tax collection more effective, transparent, and fair.

Let me know if you'd like a summary table or quotes from his key publications like "The Missing Billions" or "In The Tax Gap".