Funding the Future

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The tax gap remains in the news this week. Today, the Public Accounts Committee has published a new report on the issue in which they say:

HMRC has no overview of an individual's total wealth and faces challenges in getting all the data it needs to risk assess and target wealthy people.

Given the attention now being given to that group in society, this is significant because it reveals that, despite all the political talk about cracking down on tax avoidance, the UK's tax authority still does not know how much wealth billionaires actually hold or how much tax they really pay. And what that means is that if HMRC doesn't know, nor does Parliament, and nor do we.

In fairness, the report notes that HMRC's compliance work with the wealthy is raising more money than ever. In 2023–24, it recovered £5.2 billion from wealthy individuals, up from £2.2 billion just four years earlier. However, what that implies is that:

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Either tax non-compliance by the wealthy exploded, meaning that there was more tax to claw back.

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Or, HMRC's previous estimates of avoidance and evasion were far too low, meaning that the scale of previous underpayment has not been appreciated, or chased.

Either way, this is not evidence, as the Committee notes, of a healthy tax system. It is, instead, proof that something is badly wrong.

HMRC's own admissions on this point suggest how bad things are. They say that they are unable to identify how many billionaires actually pay tax in the UK, or how much they pay. In addition, they do not routinely link tax records to known rich lists, such as the Sunday Times Rich List. Nor do they collect data on an individual's total wealth, but only on income or chargeable gains, because that's all the legislation demands, and so they go no further, even if that might assist the appraisal of tax returns. As a result, billionaires could be paying inappropriate sums in tax in proportion to their wealth, and we would have no way of knowing.

And, as the report also notes, HMRC’s own estimate that the offshore tax gap is just £0.3 billion appears to be absurdly low, given that UK residents were believed to have held £849 billion offshore as recently as 2019.

Part of the problem that the committee highlights is the lack of focus in HMRC's work. HMRC thinks anyone with £200,000 of income or £2 million in assets is wealthy, and that may be true, but very obviously, some have a great deal more wealth than that. A billionaire’s wealth could be hundreds of times higher than someone at the bottom of that threshold. Despite this, HMRC does not systematically segment these groups to focus on where the real risk lies. To do so, it should be gathering better data, and segment taxpayers by wealth and complexity to understand who poses the greatest risk to the tax base.

Worse still, according to the Committee, is HMRC's record on deterrence. It says:

* Nearly half of all compliance investigations of the wealthy ended with no yield at all last year, meaning that the wrong targets for investigation were picked.

* The average case yielding over £100,000 still dragged on for 40 months.

* In 2023–24 there were just 25 criminal prosecutions of wealthy individuals, with HMRC’s plan to increase this by a mere five cases by 2030.

In addition, HMRC issued no penalties to the enablers of tax abuse in the most recent year reviewed. It is not utilising the powers available to it to crack down on those selling abuse to those who want to avail themselves of it.

In summary, the deterrence system is failing.

So what follows from this? First, we need greater transparency. HMRC must be required to publish far more about how much tax is paid by the wealthiest, and this must be linked to credible estimates of their total wealth and gains. Public concern about this issue requires that we have adequate data, and this can be done whilst preserving taxpayer confidentiality.

Second, HMRC needs to systematically target the highest-risk wealth by segmenting taxpayers properly. It must not pretend that treating billionaires the same as minor millionaires makes sense.

Third, Parliament should require HMRC to track and publish the wealth tax gap far more rigorously. Its current guesses look complacent in the extreme.

Finally, there must be real sanctions. That means setting meaningful targets for penalties and prosecutions, and not just against wealthy individuals, but most especially against the enablers who help them hide wealth. If that needs new legislation, so be it.

Fair taxation underpins trust in both the state and democracy. Right now, that trust is haemorrhaging because ordinary people can see that while their own taxes are largely unavoidable, it seems as if the ultra-wealthy might still be abusing the tax system with impunity, as I have long suspected and talked about.

HMRC’s recent compliance haul shows there is money to be found, but it also shows how much still might go uncollected, and how toothless our current enforcement arrangements are.

If we want a fair society, a sound macroeconomic environment, properly funded public services, and a functioning democracy, a properly functioning tax system is essential. That means we must demand that those with the greatest means pay in proportion to the privileges our society affords them. As the Taxing Wealth Report shows, the tax system is already rigged in their favour, but it is even worse if it is not properly enforced. The time for this issue to be addressed has arrived.