

Funding the Future

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People say Rachel Reeves faces a £40bn “black hole” in the UK budget. She is hinting at tax rises — but that gap could be filled, at least in part, by collecting corporation tax already owed. In this video, I explain how billions go unpaid each year, why HMRC is fighting blind, and how three simple changes could fix the system. Honest businesses would win. Tax cheats would lose. And they would not need to hit ordinary people with tax increases.

https://www.youtube.com/watch?v=R-bb_sWI6a0?si=mljc3Xnj_9qn0Clu

This is the audio version:

https://www.podbean.com/player-v2/?i=wd5sn-192d481-pb&from=pb6admin&l;share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a

This is the transcript:

People are saying that Rachel Reeves has a £40 plus billion black hole in the UK budget, and she's got to fill it in October.

She's hinting at tax rises.

I am questioning whether there's even a black hole.

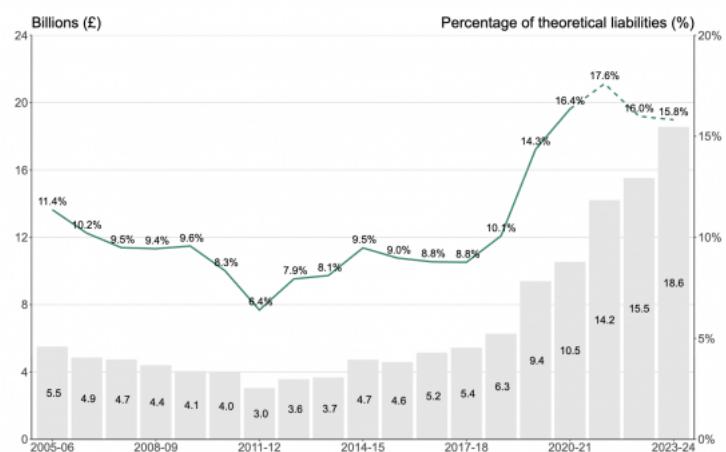
But the point is, does she need to tax people more, or does she actually need to collect the tax that's already owed?

It's an important question because the reality is that there are big problems with uncollected tax in the UK, and in particular, one tax, and that is corporation tax, the tax that is charged on the profits of all companies, big and small in the UK and very large amounts of that are going unpaid each year right now.

In fact, [let's look at the data](#).

The Revenue says that £18 billion of corporation tax goes unpaid each year, almost half of that black hole that Rachel Reeves is looking to fill. And of that sum - this is of most particular importance - £14 billion is due by small UK companies.

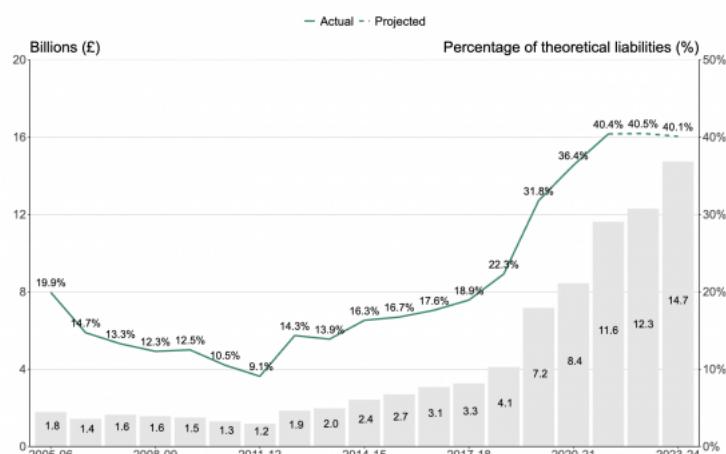
Figure 5.1: Corporation Tax gap by value and as a percentage of theoretical tax liability, 2005 to 2006 up to 2023 to 2024



Maybe hundreds of thousands of them.

Maybe not owing vast amounts each, but nonetheless, adding up to £14 billion, a figure so big that it represents £4 out of every £10 that is owed by UK smaller companies.

Figure 5.6: Small businesses Corporation Tax gap by value and as a percentage of theoretical tax liability, 2005 to 2006 up to 2023 to 2024



And if corporation tax isn't paid by these companies, you can be pretty sure that their VAT liabilities and PAYE bills on taxes owing by their employees aren't being paid as well.

So this is a massive hole in our tax system. And the fact is that HM Revenue and Customs is fighting this problem with multiple arms tied behind its back, let's be blunt about it.

It doesn't actually know which of the near 6 million companies that supposedly exist in the UK at any point of time are actually trading. And that is ludicrous.

What is more, it doesn't know which of the many hundreds of thousands of companies which disappear in the UK each year might have traded and owe tax and therefore need to be chased.

It is then literally working in the dark with regard to this issue, and I have no doubt whatsoever that there are criminals out there exploiting this to their personal advantage.

So what could Rachel Reeves do to collect this tax, which is owing?

Very simply and very straightforwardly, she could demand that all our banks report annually to HM Revenue and Customs on which companies they have provided bank accounts to.

Now, that's a very simple demand to make. In fact, they have this information, and they have to collect that information because they have to share it if the owners live outside the UK, but they don't, if they do live within the UK, which is utterly bizarre.

What is more, all those banks have to know who actually owns and controls those companies. In other words, who are the real shareholders who own the entities, and who are the real directors who run them? And so they could be asked to share that information, which they collect for money laundering purposes.

And, let's be clear about this: the banks also have to prove where those companies are trading because they've got to send the bank statements somewhere.

So the truth is that the banks have all the information that HM Revenue and Customs need to be able to tackle this problem.

So what could Rachel do? Very simple, she could change the law on company closures.

Right now, I am quite certain that the vast majority of the tax that is not being paid by small companies is owed by the vast number, the hundreds of thousands of companies that are closed each year, often having only existed for a year or two.

The directors walk away from these companies, leaving the tax debt with them, and they have no personal responsibility for them at all. They know they're in the clear, having basically committed a fraud. So what we need to do is have a change in the law that gives HM Revenue and Customs the power to declare the directors of a company are personally liable for unpaid taxes if they can show with reasonable evidence that there are some likely to be owing. And that reasonable evidence is simply the fact that they've traded and they've paid nothing.

In other words, they could actually make the people committing these frauds personally responsible for them and prevent them from using the power of limited liability to hide from their liability.

And if we then also require banks to report the total amount of money deposited in each of the bank accounts that they run for each company HM Revenue and Customs could prepare a very simple estimate of the likely tax owing by the company in question, and raise an estimated tax assessment, something which they have the legal power to do, and then make the directors personally liable for paying that bill or for providing the necessary accounts and other records that are required to prove the bill isn't owing.

We would, in other words, change the total balance of power with regard to tax collection from small companies. And that's the right thing to do because limited liability was never created to help criminals, yet that's what it's doing.

And all Rachel Reeves needs to change this is political will. She could, if she changed the law, recover billions of additional taxes each year.

It was only in 2017 that the tax loss was half the rate that it is now. At least £7 billion then is within her reach. I suggest it's rather more than that. So she could, in other words, get the money she requires to help fill her black hole.

But, as importantly, honest businesses would no longer be undercut by cheats.

There would be a restoration of trust in the tax system.

And there would be fairer markets and more funds for the government to control inflation and do all the other things that tax has to achieve.

So Rachel Reeves needs to stop targeting working people for tax increases. She instead needs to make sure that the tax system doesn't leak like a sieve. She needs to fix enforcement first before she touches tax rates. We don't need to hammer ordinary people with tax increases in this country at this point in time. We need to hammer tax cheats.

That's how you build a strong, just and fair economy.

Rachel Reeves has the power to do this.

The question is, will she use it?

Taking further action

If you want to write a letter to your MP on the issues raised in this blog post, there is a ChatGPT prompt to assist you in doing so, with full instructions, [**here**](#).

One word of warning, though: please ensure you have the correct MP. ChatGPT can get it wrong.

Comments

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