Tackling the tax gap: CIOT response to the Public Accounts Committee's inquiry

General Features

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Our response to the Public Accounts Committee's inquiry 'Tackling the tax gap' (tinyurl.com/y4bzq6kr) called for a simpler tax system and better guidance in order to reduce mistakes. In order to deter illegal behaviours, it also called for measures to increase the perception of being caught.

The UK tax gap is proportionately low, reflecting a high level of compliance by taxpayers in the UK, and the result of HMRC's compliance and other activities. It has fallen by a third in five years, and around 90% of tax due is paid without HMRC intervention. Whilst it is, of course, desirable to reduce the tax gap further, we stated that any efforts to do so should be properly targeted and minimise burdens on those already seeking to be compliant. HMRC could share more granular data, on a confidential or informal basis, with professional bodies and other business representatives, as that would enable those bodies to help HMRC address residual or difficult areas.

We remain concerned at the level of tax lost due to 'mistakes' (reported in the tax gap as error, and failure to take reasonable care). We believe this is a combination of a number of factors, including a complex tax system and inadequate guidance. We stated that until there is real, meaningful simplification of the tax system, this rate of errors will continue. We further stated that we do not believe that technology (for example, Making Tax Digital) represents the answer to complexity; rather the tax system needs to be simplified to ensure that digitisation delivers tax efficiencies.

We said that the behavioural element of legal interpretation needs further explanation. At the moment, we are concerned that it should not be part of the tax gap at all – at least to the extent that it includes situations where HMRC's

interpretation turns out to be incorrect.
We observed that the illegal behavioural elements of the tax gap remain stubbornly high. Whilst HMRC should be commended for the in-roads they have made in relation to criminal attacks, the other components of illegal activity – evasion and hidden economy – have generally remained constant. In large part, we believe this is due to the perceived risk of being caught, which is too low. HMRC need to change this perception in order to reduce illegal behaviour.

Finally, on avoidance, we noted that for the last seven years this has consistently been the smallest behavioural element of the tax gap, yet it seems to generate the most attention from the press and parliamentarians. This has led to an abundance of anti-avoidance measures in recent years, and an increasing sense of trying to squeeze the last drop out of countering avoidance. Whilst we do not condone tax avoidance, or suggest that its tax gap share of £1.7bn is an insignificant amount, we said that the government and HMRC should be paying more attention to the other behaviours, rather than the diminishing returns from avoidance.

Our submission will be published on our website (www.tax.org.uk/submissions) once the PAC itself publishes it.