Stubbornly high tax gap shows challenge of hitting targets

Briefings



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‘Tax Gap’ figures published in June showed the gap at a record high in cash terms but falling slightly as a share of the tax that should be collected. The most visible trends are a continuing fall in the VAT gap and a continuing upward trend in the small business tax gap.

In a CIOT commentary, Ellen Milner noted that there were, for a second year in a row, ‘huge revisions in these numbers’, suggesting that more attention should be paid to trends than to individual year changes. That the tax gap has been fairly steady as a percentage of the theoretical tax liability since about 2015 shows ‘the stubbornness of the tax gap and how optimistic the government’s target of a £7.5 billion reduction by 2029-30 is,’ she suggested.

ATT’s Senga Prior observed that while the government ‘has committed to raising funds by tackling tax avoidance and evasion, HMRC’s estimated figures appear to show that it is predominantly small businesses failing to take reasonable care and

making errors with their submissions that actually account for the largest proportion of the tax gap.’ While there is no ‘quick fix’ to this problem, a starting point would be ‘improving HMRC customer services and providing access to agents to the full range of digital services available to their clients in conjunction with simplification of the tax system,’ she commented.

Ellen Milner said that CIOT would welcome HMRC sharing more granular data on the tax gap to help identify where the problems lie and how best to tackle it. She added that while the government has made tackling the tax gap a priority and will be judged on their success in doing so, we are unlikely to see the results of their efforts for at least another two or three years, due to the time lag on turning investment into results.