

Britain's tax gap grows to £33bn

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The government failed to collect £33 billion of tax last year, more than it received in council tax or business rates, according to official estimates.

Every year, Revenue & Customs calculates the "tax gap" — the difference between what should have been paid and what was paid. For 2016-17 the gap was £33 billion, £1 billion higher than the previous year but unchanged at 5.7 per cent of all tax liabilities.

The tax gap has fallen sharply since it was first estimated in 2005-06, when it amounted to 7.3 per cent of receipts. Yet it still represents a massive cost to the state. Council tax and business rates, two of the largest revenue raisers, generated £30.4 billion and £29.4 billion in 2016-17 respectively.

HMRC can estimate how much it should be collecting in tax from such things as retail sale volumes, corporate profitability and labour market data.

The shortfall is caused by legitimate

errors, crime, illegal tax evasion and legal tax avoidance. The figures show that the government's decade-long crackdown on tax avoidance has been successful. The amount of tax lost to avoidance fell from £4.9 billion in 2005-06 to £1.7 billion last year.

Small businesses, which include self-employed workers who have incorpo-

£13.5bn

The Treasury's loss on personal taxes

rated themselves, were to blame for the bulk of the tax gap, at £13.7 billion. Big business failed to pay £7 billion. Losses on personal taxes, such as income tax, national insurance and capital gains tax, were £13.5 billion.

HMRC uses the analysis to reveal problems in the tax system so that it can target those areas.

"These latest estimates mean that

HMRC once again is likely to ramp up investigations into SMEs and individuals," Kevin Igoe, managing director at PFP, a tax investigations insurer, said. "HMRC has long made a habit of targeting small business and individuals. That's unfortunate as they may have less resources to defend themselves."

The findings are likely to draw the attention of Philip Hammond, the chancellor, back to the self-employed, on whom he tried to raise national insurance rates last year only to back down. The number of incorporated self-employed workers is growing rapidly.

Work last year by Arun Advani, a Warwick University professor, for the Institute for Fiscal Studies found that under-reporting of tax was "almost 60 per cent among the self-employed".

HMRC estimates that £5.4 billion is lost to "criminal attacks", much of it linked to VAT fraud, and £5.3 billion to evasion. Human error is also a factor: about £5.9 billion went uncollected due to "failure to take reasonable care".

