



Calculating the latest tax gap estimates

The tax gap gives HMRC a broad picture of the tax that should in theory be collected, against what is actually collected. This briefing explains why we calculate the tax gap each year and how it influences the way we work to collect taxes.

What is the tax gap?

The tax gap is the difference between the amount of tax due to the Exchequer and the amount actually collected in any given year. A 'tax gap' will always exist, because it is impossible to collect every penny theoretically owed in tax. For example, we cannot legally collect taxes from companies that owe tax and are insolvent.

Why we measure it

The tax gap is an official government statistic and is compiled from 30 separate tax gap estimates. These are used in different ways, such as understanding the nature and size of the tax risks we face, or to model likely tax revenues. By bringing all these jigsaw pieces together, we get an overall picture which helps us, alongside other tools, to develop our tax strategy and allocate resources. We use the percentage tax gap to track trends over time and to compare tax compliance in the UK against other countries.

The current tax gap calculations cannot be used for precise performance management. This is because some components of the tax gap take a long time to calculate, the estimates are not accurate enough and the figures can change when new data becomes available.

We publish tax gap figures every year to provide a broad indicator of trends in compliance and because we think it is important to be transparent in our thinking on this important issue of public interest.

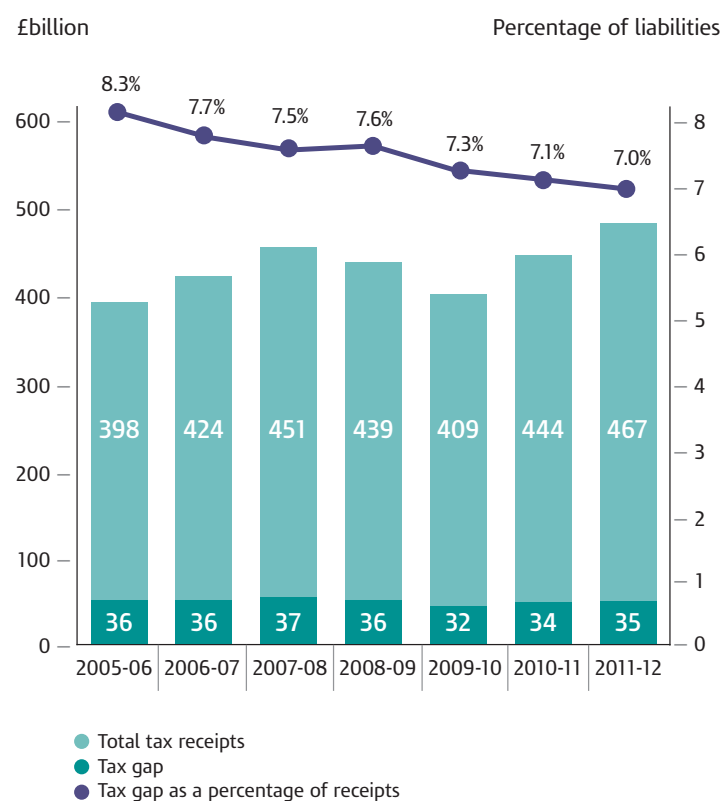
Latest calculations

The estimates just published for 2011-12 show the tax gap is £35 billion, which takes into account the money we bring in through our compliance activities. It also takes account of revisions to the tax gap estimates which date back to 2005-06. The tax gap has been broadly stable over the past seven years, remaining between £32 billion and £37 billion.

The tax gap is affected by changes in tax rates and other external factors, such as economic growth, so it is more appropriate to show it as a share of total tax liabilities. The tax gap, as a percentage of total tax liabilities, is similar to last year (7.1 per cent in 2010-11, 7.0 per cent in 2011-12) but substantially less than in 2005-6 (8.3 per cent). In fact, if the percentage tax gap had been 8.3 per cent in 2011-12, the tax gap would have been £42 billion - £7 billion higher than the current figure.

The slight increase in the tax gap, from £34 billion in 2010-11 to £35 billion in 2011-12, is mostly due to the increase in the standard rate of VAT and the availability of more recent data.

Tax gap and percentage of liabilities: 2005-06 to 2011-12¹



1. These receipts are National Statistics and are produced on a cash basis. They differ from those shown in the Trust Statement, which are a mixture of cash and accruals.

Accuracy of the calculations

Tax gap calculations are a complex series of measurements – which is partly why many other countries do not produce a tax gap estimate. Because we have data that covers virtually all tax sources, and can use evidence-based estimates where we haven't, we are confident that our calculations are as accurate as they can be, and that the estimates are made on a like-for-like basis each year.

To put the £35 billion tax gap in context, we collected £467 billion in tax during 2011-12. The figures, combined with our own customer research, show the vast majority

of UK taxpayers are compliant in paying their taxes, with only a small minority choosing to bend or break the rules.

Our approach to tackling the tax gap

Calculating the tax gap helps us develop strategies which are tailored to the behaviours of our different customer groups.

Large business customers pay the majority of corporation tax, and a large percentage of VAT and PAYE taxes. Our approach to large business is to improve compliance through close monitoring, identifying high-risk areas of non-compliance, and assembling dedicated task forces to tackle the most serious cases. A relatively small number of tax risks produce most of the additional revenue raised.

While most small and medium-sized enterprises (SMEs) pay the right amount of tax, we estimate that the SME customer group is responsible for nearly half of the value of tax gap. Much of this is attributable to error or failing to take reasonable care, so we provide a wide range of tailored and targeted educational support to give customers greater certainty that they have got things right at key points in their business lifecycle. Our Campaigns target specific customer groups and provide customers an opportunity voluntarily to put their tax affairs in order. But we are also determined to crack down on evasion; tax gap analysis suggests that this is a significant risk amongst SMEs. We have invested heavily in our strategic data matching system Connect and in additional compliance staff to address this. And we deploy around 20 taskforces a year to tackle evasion in specific, high-risk regions and sectors.

Most taxes paid by individual customers are collected by their employers, so one priority is to support employers and make it easier for individuals to contact us about adjustments to their tax affairs. Our pilot of Real Time Information for PAYE has paved the way for significant improvements in accuracy and will reduce the need for customers to contact us to sort out their tax affairs.

Our approach to organised criminal attacks - for example on the VAT or Excise systems - combines the best of a modern business in developing fraud resistant systems with the capabilities of a modern law enforcement agency.

Our anti-avoidance strategy, published in 2011, underpins our approach to tackling tax avoidance across all customer groups. By preventing avoidance at the outset where possible, detecting it early and countering it effectively through legal challenge or legislative change, our strategy is delivering significant successes against tax avoiders and those who promote tax avoidance schemes.

To find out more

www.hmrc.gov.uk/statistics/tax-gaps/mtg-2013.pdf