

Committees

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Chair calls on Government to publish list of companies that received furlough money

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The Public Accounts Committee is today calling on HMRC to give a more honest picture of the likely levels of the so called “tax gap” - between tax that should be paid on the UK’s economic activity and the tax that HMRC actually collects – whether caused by deliberate evasion of various kinds or accidental taxpayer error.

- [Read the report summary](#)
- [Read the conclusions and recommendations](#)
- [Read the full report](#)
- [Read the full report \(PDF\)](#)

Wide range of causes of the tax gap

HM Revenue & Customs’ (HMRC) most recent estimate of the tax gap was £31 billion in 2018-19. However, by its own admission there is in fact a wide range of estimates, or margin of error, that render this “estimate” by HMRC less useful, and the Committee says HMRC should not be using these numbers without explaining their limitations.

The tax gap has a wide range of causes, ranging from deliberate evasion to accidental taxpayer error.

Small businesses are responsible for more than 40% of the tax gap, followed by large business with 17%. Wealthy taxpayers, which HMRC classifies as people earning more than £200,000 a year, or holding assets of more than £2 million, account for 6% of the tax gap.

All of these are HMRC estimates – subject to the same problems of reliability – and HMRC fails entirely to set out the relative size of the tax gap for different sectors of the economy.

Fraudulent payments

In a further important “knowledge gap” it does not include technically legal, but highly undesirable, tax measures used by the wealthy and large businesses.

These problems have been greatly compounded for HMRC – and the taxpayer – during the COVID-19 pandemic, with HMRC currently estimating up to 10% fraud or error in the hastily devised employment furlough scheme, meaning £3.5 billion of furlough payments made by

revised employment furlough scheme, meaning £3.5 billion of furlough payments made by mid-August may have been fraudulent or paid in error.

Chair's comments

Meg Hillier, Chair of the Public Accounts Committee, said:

“Best estimates really won’t do when you’re talking about multi-billions of pounds that could be being collected to support public services, and particularly when billions of pounds is being spent on Covid support.

“We expect HMRC to be doing more to collect the tax owed, whether from individuals or companies. With families and businesses straining every sinew to stay afloat it is just as critical that the Government collects tax effectively and efficiently, as it is that the Government spends money wisely.

“Our finding of the astonishing lack of economic planning for a pandemic shows how the unacceptable room for fraud against taxpayers was allowed into the Government’s hastily drawn up economic support schemes. I would like to see the Government publish a list of the companies which received furlough money. Where taxpayers money is being used, transparency should be a given. HMRC must act now to minimise fraud and error and ensure that taxpayers do not pay time and time again in the years to come.”

The impact of Covid-19

The extra tax revenue collection that can HMRC can claim is down to its own efforts is down by about half in the first quarter of this year. While it’s not possible yet to assess the impact of COVID-19 on the “tax gap”, it is clear that HMRC now needs to fundamentally rethink how it collects unpaid tax. While HMRC claims success in tackling the tax gap, its estimates and analysis are simply not reliable enough to support such definitive claims.

The Committee says HMRC may never catch up with the compliance checks it has had to forego because of new and different priorities under the pandemic and “will inevitably have to change its approach to compliance because of COVID-19”.

As part of this HMRC needs to consider the support customers need and the costs it imposes on taxpayers, particularly in plans to make tax digital, where there are indications that the costs imposed on taxpayers will far exceed government estimates.

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