

## The Tax Gap

HMRC was only able to recover 95% of the taxes assessed for 2020-21, this equates to a tax gap for the 2020-21 tax year of £32 billion. At 5.1%, there has been no change in the percentage tax gap compared to the previous year, although the monetary value has fallen by £2 billion from £34 billion in the 2019 to 2020 tax year.

The total tax due to be paid fell from £672 billion in 2019-20 to £635 billion in 2020-21 due to the economic impact of COVID-19.

HMRC has published tax gap estimates since the 2005-06 tax year. There has been a long-term reduction in the overall tax gap from 7.5% in 2005-06, to 5.1% in the 2020-21 tax year. The reduction is a result of the government's action to help taxpayers get their tax right first time, whilst bearing down on the small minority who are deliberately non-compliant.

### ***How does this affect the tax we pay?***

Any taxes that are unpaid will create a shortfall in revenue that will add upward pressure to the taxes we pay – to make up the difference.

Current fiscal policy is wedded to the notion that taxes fund public expenditure in which case any tax gap will leave the Treasury short of funds to meet its expenditure commitments.

Unless the expenditure side of the equation can be reduced, by departments agreeing to a drop in funding, this shortfall – the tax gap – will have to be covered by short-term borrowing. Longer term, the shortfall may encourage the Treasury to seek increases in taxation.

Although 5% may not seem to be a significant percentage it amounts to £32bn. This is equivalent to double the amount of tax assessed on capital gains in a full tax year.



Business owners would be reluctant to accept that 5% of their hard-won sales were written off as bad debts each year and we can assume that HMRC will take steps to recover as much of tax assessed as is possible.

It will be interesting to see how effective HMRC will be in the coming year as inflation and a reduction in economic activity start to impact our ability to pay taxes due.

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