

2020 TAX COMMISSION

TaxPayers' Alliance ♦ Institute of Directors

www.2020tax.org

Research Note 3

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How the taxman loses billions every year

Every year Her Majesty's Revenue and Customs (HMRC) loses out on unpaid tax. Stories of HMRC blunders are all too common, and recently the Treasury Select Committee slammed HMRC for ineptitude and bad service.¹

Remissions are debts capable of recovery but HMRC has decided not to pursue the liability, for example, on the grounds of value for money or official error. Write-offs are debts that are considered to be irrecoverable because there is no practical means for pursuing the liability (e.g. after bankruptcies). This research note shows that over the last five years, a significant amount of tax has not been collected or has been written off.

Big increases in lost tax may in part be explained by recessionary pressures on individuals and businesses. But a much simpler tax system could help to avoid errors of this scale in the future, and the deficit could be reduced more quickly. The 2020 Tax Commission is exploring ways to make taxes simpler and less burdensome on families and businesses, and will be publishing its final report and recommendations in Spring 2012.

The key findings of this research are:

- Over the last five financial years **£27.4 billion of tax revenue has been lost by HMRC** through remissions or write-offs.
- **That is over £1,000 per household lost in tax** over the last five years, or more than £200 per year.
- **£5.9 billion** was lost in 2010-11. If this money was collected, it would be possible to **cut more than 1 per cent off the standard rate of VAT.**²
- Over the period studied, £4.4 billion has been lost in Income Tax alone. **The amount of Income Tax lost in 2010-11 was 52 per cent higher than in 2006-07.**

¹ <http://www.publications.parliament.uk/pa/cm201012/cmselect/cmtreasy/731/731vw.pdf>

² http://www.hmrc.gov.uk/stats/tax_expenditures/table1-6.pdf

The UK's tax system is far too complicated

A previous research note for the 2020 Tax Commission found that the UK's tax code has grown massively over the last decade. *The length of Tolley's individual tax guides*³ showed that the handbooks of tax legislation have sharply increased in length, indicating more and more complexity. Tolley's Corporation Tax guide is now 1,897 pages long, 185 per cent longer than it was in 1999-2000. Tolley's Income Tax guide is now 1,801 pages long, 54 per cent longer than it was in 1999-2000. Added complexity places a huge burden on families and businesses in the UK.

The tax code is so long, in fact, that it would take Steve Woodmore, the world's fastest speaker, over 5 days straight to get through it all (picture links to video):



To arrange broadcast interviews, please contact:

Robert Oxley

Campaign Manager, TaxPayers' Alliance
robert.oxley@taxpayersalliance.com
07544 933 215

To discuss the research, please contact:

Matthew Sinclair

Director, TaxPayers' Alliance
matthew.sinclair@taxpayersalliance.com
07771 990 174

³ <http://www.taxpayersalliance.com/tolleys.pdf>

Tax Remissions and Write-Offs over the Last Five Financial Years

Year	Tax	Remissions (£, million)	Write-Offs (£, million)	Total (£, million)	Year Totals (£, million)
2010-11	Income Tax	409	937	1,346	
	Value Added Tax	48	1,941	1,989	
	Corporation Tax	2	633	635	
	Capital Gains Tax	3	36	39	
	National Insurance	66	757	823	
	Alcohol Duties	-	10	10	
	Tobacco Duties	3	-	3	
	Fines and Penalties	6	363	369	
	Tax Credits	600	24	624	
	Other	5	18	23	
					5,861
2009-10	Income Tax	91	892	983	
	Value Added Tax	32	3,117	3,149	
	Corporation Tax	5	725	730	
	Capital Gains Tax	2	27	29	
	National Insurance	50	870	920	
	Alcohol Duties	24	28	52	
	Tobacco Duties	19	2	21	
	Tax Credits	407	30	437	
	Other	17	29	46	
					6,367
2008-09	Income Tax	54	646	700	
	Value Added Tax	23	2,246	2,269	
	Corporation Tax	3	596	599	
	Capital Gains Tax	4	56	60	
	National Insurance	36	480	516	
	Alcohol Duties	-	71	71	
	Tobacco Duties	-	14	14	
	Tax Credits	264	23	287	
	Other	2	39	41	
					4,557

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Year	Tax	Remissions (£, million)	Write-Offs (£, million)	Total (£, million)	Year Totals (£, million)
2007-08	Income Tax	59	677	736	5,857
	Value Added Tax	38	3,516	3,554	
	Corporation Tax	3	374	377	
	Capital Gains Tax	4	54	58	
	National Insurance	41	544	585	
	Alcohol Duties	1	230	231	
	Tobacco Duties	-	48	48	
	Tax Credits	240	7	247	
	Other	9	12	21	
2006-07	Income Tax	52	600	652	4,755
	Value Added Tax	75	2,881	2,956	
	Corporation Tax	3	214	217	
	Capital Gains Tax	14	27	41	
	National Insurance	10	436	446	
	Alcohol Duties	-	35	35	
	Tobacco Duties	-	23	23	
	Tax Credits	315	54	369	
	Other	1	15	16	
				Total	27,397

Sources: HMRC Annual Resource Accounts for 2010-11; 2009-10; 2008-09; 2007-08; and 2006-07