Dear Ms Morgan,

Calculating the 2017 to 2018 Tax Gap

I am writing to let you know that HMRC has today published the ‘Measuring Tax Gaps: 2019 edition’ report. This includes our estimate of the 2017-2018 tax gap. The full report on the subject is now available on GOV.UK.

The report shows that the tax gap for 2017-2018 was 5.6% of total tax and duties due, or £35 billion in cash terms, which means we collected 94.4% of all the tax due under the law.

It’s essential to refer to the percentage tax gap to understand compliance trends over time. The cash figure is affected by economic growth and changes to tax rates, whereas the percentage gap takes the impact of these factors into account. You will see that the cash value of the tax gap in 2017-18 is higher than in some earlier years – despite being at a low percentage. This reflects that HMRC is also collecting record levels of revenue. Total revenue, as reported in our Annual Report and Accounts publications, has for example increased from £536.8 billion in 2015-16 to £605.8bn in 2017-18.

The tax gap has fallen from 7.2% in 2005-06 to 5.6% in 2017-18, albeit with some year to year variations. Its lowest point to date was 5.3% in 2015-16 and although there has been a slight increase this year (primarily driven by an increase in the latest VAT gap estimate), it remains low, with the trend in recent years being best described as flat.

Today’s figures also show that while the majority of our customers want to get their tax right, too many are still finding this hard, with avoidable mistakes costing the Exchequer over £9.9 bn a year. £3bn of this is attributable to VAT alone.

This underlines the importance of the action HMRC has been taking with the launch of Making Tax Digital in April this year for VAT-registered businesses, with turnover above the VAT threshold, requiring them to keep digital records and submit their VAT return using compatible software.
We expect the new service to reduce tax lost due to avoidable mistakes in the longer term. This is thanks to the improved accuracy that digital records provide and the fact that information is sent directly from those records to HMRC, helping to eliminate transposition errors.

The number of businesses who have joined the new service is now at over 400,000.

We are the only revenue authority in the world that measures and publishes the tax gap, covering both direct and indirect taxes, every year. We publish these figures because we believe it’s important to be transparent in our work.

The tax gap calculations are also a complex series of measurements and estimates, which are subject to constant revision and improvement. This is due to the continued availability of more up-to-date data and improvements to data analysis. The estimates are produced in accordance with the Code of Practice for Official Statistics, which assures objectivity and integrity.

At 5.6%, the tax gap remains low – this is the result of HMRC’s sustained efforts to support the overall health of the tax system and make it as easy as possible for customers to pay the right tax at the right time.

I hope you find this information useful. Should you have any queries about the latest tax gap estimates, please do get in touch.

Kind regards,

SIR JONATHAN THOMPSON  
CHIEF EXECUTIVE AND PERMANENT SECRETARY