

## The latest UK tax gap figures

Synopsis: According to the latest figures published by HMRC, the UK tax gap is estimated to be £35.8bn in 2021/22, up from £30.8bn in 2020/21.

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The tax gap is the difference between the amount of tax that should, in theory, be paid to HMRC, and what is actually paid.

According to HMRC's latest report, the tax gap for the various taxes in 2021/22 was...

- 3% for income tax, National Insurance contributions (NICs) and capital gains tax (CGT) – the biggest share of the total tax gap at £12.7 billion when viewed by type of tax (35%).
- 3% for corporation tax (the second biggest share of the total tax gap at £10.6 billion (30%).
- 4% for VAT.
- 1% for Excise Duty.

The tax gap from small businesses is the largest proportion of the tax gap by customer group at 56% in 2021/22, the tax gap from individuals and wealthy each make up a low proportion of the tax gap at 6% and 5% respectively in 2021/22.

Failure to take reasonable care accounted for 1.4% (£10.7 billion); whilst error accounted for 0.7% (£5.4 billion).

Avoidance accounted for only 0.2% (£1.4 billion); criminal attacks were 0.6% (£4.1 billion); evasion was 0.6% (£4.7 billion); and the hidden economy accounted for 0.3% (£2.1 billion).

The term “hidden economy” refers to sources of taxable economic activity that are entirely hidden from HMRC. It includes businesses that are not registered for VAT, individuals who are employees in their legitimate occupation, but do not declare earnings from other sources of income (moonlighters) and individuals who do not declare any of their income to HMRC, whether earned or unearned (ghosts).

Non-payment (largely taxes written off as a result of insolvency) was 0.4% (£3.3 billion).

The report puts tax lost due to legal interpretation in 2021/22 (i.e. where the taxpayer's and HMRC's interpretation, and how it applies to the facts in a particular case, have resulted in a different tax outcome, and there is no avoidance) at £4.1 billion.

HMRC points out that many tax gap component estimates have been revised since Measuring tax gaps 2022 edition. This is due to improvements in the way they are calculated, the availability of more up-to-date data and projections based on more recent years' information.

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