New research reveals which types of people are most likely to under-report their taxes

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Credit: University of Warwick

New research published today uses data from HMRC's random audit programme to show which types of people are more likely to be under-reporting taxes and how their behaviour changes after a tax audit.

The study was carried out by Dr Arun Advani, Assistant Professor at the University of Warwick and Research Fellow at the Institute for Fiscal Studies.

The report is published to coincide with new HMRC figures on the tax gap – the share of tax due that wasn't collected for example because of mistakes or deliberate under-reporting (evasion). Around a fifth of this comes from taxpayers filing income tax self assessment.

Dr Advani said "Between errors and deliberate under-reporting, a significant share of self-assessment tax goes unpaid. Audits bring in tax directly, but also change taxpayers' behaviour. Audits work not because they scare people into complying in future years, but because they give HMRC more information about people's incomes. The change in behaviour actually brings in more than the original audit."

Each random self-assessment audit recovers for HMRC an initial £830 on average. An additional £1,230 is raised in the following five years because taxpayers change their reporting behaviour. Audits have a lasting impact if they reveal a source of income that varies little over time, such as pension or income from letting properties. Once HMRC uncover these income sources, it is hard for taxpayers to hide them in future years. In contrast knowing about today's self-employment income provides relatively limited information about future self-employment income.

Helen Miller, Associate Director at the Institute for Fiscal Studies added: "The self-assessment tax gap is significant. This new research fills in some of the details about where the revenues are being lost. Most revenue is lost to a relatively small proportion of people who evade large amounts of tax. Evasion is highest for the types of income which are easiest to under-report."

The results are based on data from audits covering tax returns for the years 1999–2009.

More information: Who does and doesn't pay taxes? www.ifs.org.uk/publications/10003

Provided by University of Warwick