

Real action on tax havens now?

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It is a little shocking to realise that Gordon Brown [said this yesterday](#):

We want the whole of the world to take action. That will mean action against regulatory and tax havens in parts of the world which have escaped the regulatory attention they need. The changes we make will have to apply to all jurisdictions around the world.

It takes a seasoned campaigner like me a little while to realise quite how far we've come when someone who has been as died in the wool supporter of tax havens as Brown has been is saying things like this.

And it's also worth noting this from the publication launched yesterday call [The Road to the London Summit](#):

Financial activities should be regulated according to their economic substance rather than their legal form. This will involve addressing the emergence of the shadow banking sector; a shift in regulatory focus towards those institutions and markets that pose the greatest risk; and considering greater powers for regulators to oversee previously under-regulated sectors and how to ensure consistent regulation in all jurisdictions.

So what's happening? First, there's a lot of hype in here. As the FT notes:

Government insiders were on Wednesday night trying to calm down expectations.

Don't get carried away in other words.

Second, as the Guardian notes:

Sources say it is important that everyone pays their fair share of tax but no country will want to damage the economic competitiveness of major companies.

Which means we have to be realistic: they're not talking about taking on any of the major corporate tax abuses of the sort described in the Guardian over the last fortnight and here over the last two or more years.

The reality is that they're talking about the two areas that dominate Britain's hopes for the London meeting - economic stimulus and reforms to banking regulation. I have no problem with either - let's be clear. But when it comes to tax havens it is very, very likely that the focus will be on personal tax. Again, I don't argue that this is important, it is. It is the bigger part of the problem - I know that. But it's not all the problem.

The reality is that there will be a conflict in the London Summit approach if the challenge to tax havens focuses on the personal use of them and the focus on regulation is only on banks. Note what that paragraph from the London Summit document noted above says. It argues that financial activities should be regulated according to their economic substance rather than their legal form. This is fundamental, but it should also be noted that regulation includes tax. And it requires these things for it to happen:

- 1) We have to know where the conflicts between economic substance and legal form arise. This is exactly what country-by-country accounting reporting is designed to expose.
- 2) We have to be willing to apply this to all aspects of regulation. It can't work for banking, hedge funds and private equity with regard to their obligations to the FSA. It has to apply to their tax obligations too.
- 3) There has to be an open willingness to say offshore structures will simply be ignored where they have no real economic substance. The [revised](#) EU Savings Tax directive does that. I would expect the G20 to endorse that approach, now. I would expect Gordon Brown to specifically endorse that approach, now. And I would suggest that sanctions to enforce this, including withholding taxes to places that refuse to cooperate with automatic information exchange to allow this approach must be endorsed, now.
- 4) The drive to better regulation must be for the benefit of all. It would be useful if governments could get better information on what is happening in the economy. Automatic information exchange will be of enormous benefit to tax authorities. But there are still the ordinary people of the world, the trading entities of the world and the countries who ultimately stand to bail these people out when things go wrong who are also suffering from an enormous lack of transparency in our economies. We need the full accounts of all limited liability entities to be on public record in every country in the world, and we need to know who their beneficial owners (the real warm bodies, that is) are in all cases unless that beneficial ownership is a publicly quoted company. In the case of trusts this means the settlor, or if they are dead, the beneficiaries who have either received funds or who are named in any instructions, including side letters of trustees. Only then will we massively reduce the risk of trading in the world economy and so cut the risk premium now having to be paid on borrowing which is such a massive impediment to economic recovery.

This is a programme that forms the basis for real reform. I urge the Prime Minister to

take it very seriously. It is a programme wholly aligned with his goals. It is a programme that is deliverable, and which supports rather than undermines real economic competition.

This is a win for all people in all nations who want to see a secure, safe, stable and law abiding economy. Who can argue with that?