

Secrets and tax

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The FT has an editorial under the above title today. As they say:

*The ability to keep secrets is an essential part of private banking. But sadly for the bankers of Switzerland and other tax havens, it is an ability they are losing. Stung perhaps by pressure on public budgets, governments are using ever cruder methods to pierce the veil of customer confidentiality. In recent years, the British have leaned on the Channel Islands, while the US has forced open the ledgers of Switzerland's **UBS** by threatening it with commercial retaliation. But the Germans have come up with the most direct approach: purchasing stolen bank records from employees.*

As the note:

The Swiss are outraged, and have accused the Germans of fencing stolen goods.

It is easy to see why the Swiss are alarmed. Germany is in effect establishing a market in bank data. Berlin may not be commissioning acts of larceny, but the "Merkel put" is a standing inducement for bank staff to breach their contracts. This is a potent threat to the private banking model. Even the possibility of leaks is damaging. If you were a German tax evader, you would not want to wait around to test the loyalty of the staff at your offshore bank.

So what's the FT's opinion on this:

It is surely legitimate to offer inducements for informers to testify. And it is in the public interest for tax cheats to be identified and forced to pay their dues.

Merkel's put is a highly effective mechanism for achieving this. The Germans have raked in about €200m so far from LGT's clients for their €4.6m, some of which they recouped by onward sales of data to other states. The Swiss are right to be worried.

The FT has this completely right: Switzerland is, by offering bank secrecy knowing that

it will be sued to facilitate tax evasion, promoting crime. There is no other explanation for its actions. It is the Swiss and the Swiss alone who are wrong in the German - Swiss dispute on this issue. Germany is tackling crime, Switzerland actively facilitating it to the point that its actions might reasonably be considered criminal. Of course it is legitimate in that case to buy data to stop crime.

In the broader context it's also about stopping economic warfare by Switzerland, and we've always paid informers to do that.

There's just one issue I'll argue with the FT on. They says:

Tax evasion is seen as morally ambiguous partly because it does not cause a big harm to a single individual but a small harm to many. Non-compliance is sufficiently widespread that people feel "it is all right because everybody does it"

I disagree. Undermining the rule of law is a big harm to all - especially when tax evasion does in the process deny the essential resources society needs to ensure a decent standard of living for all, as will increasingly be the case over the coming years. This is an enormous issue, and we should treat it as such.