

Funding the Future

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The Task Force on Financial Integrity and Economic Development, of which Tax Research UK is a member, has welcomed new moves to tackle tax dodging announced by the global body charged with fighting financial crime.

Under revised standards from the Financial Action Task Force (FATF), tax evasion will be an offence that can lead to a money laundering charge in the future. That means that, as I have long argued should be the case, banks will now be obliged to be on the look out for suspected tax evasion by their clients and report it if they suspect it is happening. The new FATF recommendation will provide authorities with a powerful tool to help prosecute individuals and corporations attempting to dodge financial obligations, hide ill-gotten gains or fund illegal activities.

Although they carry no legal weight by themselves, FATF recommendations are considered the basis for national and international legislation to prevent the money laundering. As such we can expect this recommendation to be reflected in new law worldwide over the next few years.

That's the good news. The bad news is that the FATF has not tackled one of the biggest problems with the current international financial system: the difficulty of accessing information about the real persons who have ultimate control over a company. It is "anonymous companies" that are a key part of the structure that enables criminals to set up the bank accounts they use to hide their funds. This represents a failure of political will by FATF member states, leaving a significant loophole that undermines progress elsewhere. As a result the FATF has taken a step forward, but still has a long way to go.

That said; no one should doubt the direction of travel. Those campaigning for reform to prevent financial abuse can see that their campaign is winning, and will emphatically win out in the end. The next step in achieving that will happen when the FATF requires all countries to have a public register of the ultimate person with control over a company, known as the beneficial owner. This could easily be integrated into the process of forming a company in any given country, and existing companies could be required to file beneficial ownership information with their next regular certification. How far away is this? Much sooner than most people expect and for one good reason -

which is that the world over governments are losing out to tax abuse as they do not have this information and their willingness to accept that is going to be tested to the limit over the next few years as tax revenue becomes one of the scarcest commodities in the world.

The demand for transparency, accountability and for everyone who owes it to pay tax will deliver reform. It's just a matter of time.