

# Funding the Future

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I am on BBC Radio 4's The Today Programme this morning at 8.30 (ish) to discuss the role of the Big 4 firms of accountants in tax havens and in international tax avoidance.

Let me reiterate what tax avoidance is. It is getting round tax law to obtain an advantage parliament did not intend. So it is not paying money into a pension within allowed limits or subscribing for an ISA. Parliament intends those reliefs. It is instead finding loopholes and discrepancies in and between tax and accounting laws either in the UK or between the UK and other places so that income falls out of the UK tax net.

It is, of course, often said that tax avoidance is legal. I dispute that. Correctly it is not illegal. But nor is it sanctioned by parliament. It is in a grey area where the law is in doubt, and very often the application of law is, in the absence of a general anti-avoidance provision, also in doubt. That is precisely why this is a moral issue. When the application of law is uncertain, and it can be, morality has to take its place as a guiding principle as to right action. The inclusion of morality in tax debate is appropriate for precisely this reason.

So what has this to do with the Big 4, tax havens and tax avoidance? I think there are three key issues.

The first is that many of the uncertainties that tax avoidance seeks to exploit relate to tax havens and their law. There is clear intent in the case of the behaviour of far too many multinational companies to exploit tax havens, or secrecy jurisdictions as I prefer to call them, to gain a tax advantage. The fact that they are secret only adds to their appeal: this behaviour in the grey zone between what is certainly legal and that which is illegal is something few want to draw attention to. Secrecy provides a convenient cover for that. But the use of these places by multinational companies would not be possible if their subsidiaries that exist in those tax havens that record the transactions they route through them (note that 'through them' because nothing much ever really happens in a tax haven bar a little bit of legal dealing and some book-keeping) could not be audited in those tax havens by the Big 4 firms that also audit their group accounts, albeit that those transactions will almost certainly be hidden from view in those accounts. As such the presence of the Big 4 in every major tax

haven is vital if multinational companies are to tax avoid using these places, and it is no surprise then that the Tax Justice Network's Financial Secrecy Index project has found that the Big 4 are, almost without exception present in all the major and a great many of the minor tax havens, even when the local populations of these places clearly could not justify their presence. The implication is obvious: for their own gain these firms are in tax havens to permit tax avoidance by multinational companies that undermines the tax revenues of this country and other countries, to the cost of us all.

Secondly, it is important to note that the presence of these firms in tax havens is not neutral. Around the world I have seen partners from these firms defending the tax haven status of the places where they work, advocating new laws and new legal structures that make it ever easier for them to sell their services from these places, and defending the low (or often no) tax that tax havens offer. The role of PWC in creating Jersey's zero/ten tax regime is just one of many examples. Never do I hear these firms demanding accountability for their clients in these locations. And this advocacy of secrecy and low tax is vital. Many of these places are small. Candidly their parliaments would have, at best, the status of a small district council in the UK and broadly speaking they attract similar sorts of candidates. Now I have the greatest of respect for local councillors: many do a great job, but my point is that very few have experience of international finance and its needs, even in places like the Channel Islands or BVI. In that case they pass the laws they are presented with by the local financial services community. As leading figures in those communities the Big 4 are not, therefore, neutral in this process: they also create the tax environment in which tax avoidance takes place. And I seriously hope they do not deny this: such environments do not happen by chance; they are created by human endeavour and the Big 4 have supplied a lot of that endeavour. In other words, they do not just facilitate tax avoidance, they create the environment in which it occurs.

Which brings me to my third point, which is that the Big 4 are in that case moral agents in this situation and are not merely acting within the demands of the market. They are definitely helping create and promote a market for tax avoidance. Whenever, for example, you see them promoting "cost effective supply chain management" (as they all do) you can be sure they are talking about the use of tax havens mixed with careful transfer pricing to ensure some profits slip out of the UK or some other place. But in doing that they are seeking to alter who pays tax and how much tax is paid. And as a result of their size and impact this has major implications. The tax burden is undoubtedly shifted from capital onto labour as a result; that is inevitable. The philosophy is simple. Like it or not that means that the Big 4 embrace Leona Helmsley's idea that only the little people should pay tax. Second, it also means they endorse the fundamentally anti-democratic idea that tax havens could and should be used to limit the size of democratically elected government's activities. Indeed, by providing the opportunity for large multinational companies to say "we'll leave if you don't do what we want" they directly facilitate that process of attempted blackmail.

But all that leads to questions on ethics, and the appropriate response. I question these firms ethics. I question their commitment to society when they clearly seek to undermine it. I question their commitment to democracy when they are willing to work around laws. And I definitely question their commitment to social and distributive justice.

All of which then leads to a series of further questions. If this is the case why then do we afford these firms such status? And why do we allow them such influence? Why, perhaps most especially, do we allow them to set the rules for accounting disclosure that currently let them and their clients hide what they are doing from public view, which greatly assists its perpetuation? But most of all, if these firms work so hard to undermine the government's income why do we grant them government contracts? And isn't that one immediate way to impact this behaviour on their part?

Of course, not all of that may come up in a couple of minutes on air. But those are the issues I want to discuss. Now all I have to do is get to the studio on time.