

My presentation to the Canadian House of Commons on ta...

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I am making a presentation and taking questions at a hearing of the Canadian House of Commons Standing Committee on Finance today. Thankfully I am doing it by video link: that keeps my carbon footprint down. The discussion will be part of their study of tax evasion and the use of tax havens.

I have been given a few minutes to make opening comments. This is what I expect to say:

Thank you for asking me to speak this morning. I am sorry I cannot be with you in person.

Tax havens have an enormous impact on the world. It is one that, unfortunately, has largely been ignored by academic researchers, whether in the fields of tax, accounting or economics. The result is the issue is still not as widely understood as it should be. It has fallen to NGOs to remedy this fault on their part. I have been working on such research for a decade now. As one consequence of that I am co-author of one of the most cited academic books on the subject, published by Cornell University Press.

Largely as a result of that work by NGOs the dangers tax havens pose is now being appreciated. As the OECD has conceded this week, tax havens threaten the credibility of the world's corporate tax systems. They also now agree that tax havens create unlevel playing fields that distort markets and that must inevitably lead to the misallocation of economic resources at cost to us all. You have, however, asked me to talk about tax havens and tax evasion.

Tax evasion is criminal activity. In the case of tax havens it relates to the process of withholding information from a tax authority to which it is due to ensure that tax owing to that authority is not declared or paid.

Tax havens acknowledge that a decade ago they were at the core of much, but not all, tax evasion. Some tax evasion does not involve them, of course: paying a builder in cash has always happened and goes nowhere near offshore. Serious, organised tax

evasion does however occur offshore, and frequently. It's my contention that this remains the case now, although tax havens, or secrecy jurisdictions as I prefer to call them deny it.

I define tax havens or secrecy jurisdictions as places that intentionally create regulation for the primary benefit and use of those not resident in their geographical domain. That regulation is designed to undermine the legislation or regulation of another jurisdiction. To facilitate its use secrecy jurisdictions also create a deliberate, legally backed veil of secrecy that ensures that those from outside the jurisdiction making use of its regulation cannot be identified to be doing so.

It is not low tax rates that define a tax haven: low tax rates are the legitimate choice of governments that can balance their books without resort to higher rates. It is secrecy and the fact that it is provided for the benefit of a person not resident within its domain that defines a tax haven.

That secrecy takes many forms. It includes not having to record the real ownership or management of a company with regulatory authorities. It comes from no accounts being required to be placed on public record, or even be made available to authorities because a no tax regime does not require tax returns.

It comes from tier upon tier of structuring in one secrecy jurisdiction after another to create impermeable opacity often combining trusts, companies and foundations.

It can come from Swiss style banking secrecy.

It can come from non-cooperation, whether that be refusal to information exchange or by ensuring that, as the French have found, when information exchange requests are made the data supplied is of limited or no value.

All these things happen, and it is not by chance. It is by design. The intention of tax havens is straightforward: with the aim of luring cash to their banks to support a local financial services sector that appears to create prosperity secrecy jurisdictions sell their right to legislate for the benefit of those who do not live there and who wish not to pay their taxes where they are due including in places like Canada.

The cost is enormous: the Tax Justice Network estimates there is a minimum of US\$21 trillion in assets held offshore at present that is not declared for tax purposes. The tax lost may well exceed US\$200 bn — twice the annual aid budget. And this cost is imposed deliberately, with the assistance of the world's financial services community.

Importantly this issue can be solved. Two simple solutions would work. First, automatic information exchange of data on account holding is essential: we don't even need to know the income earned, just that someone has an interest in it. That's the only smoking gun that's needed.

Second, mandatory disclosure of the ownership of all companies and trusts must be on public record worldwide. That's the minimum price of using these structures.

Do this and the problem of tax evasion won't end altogether, of course. But I promise you, your tax yield will increase, significantly.