

Tax returns on public record are not the way to beat th...

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I note that [John McDonnell is suggesting that Labour will require that the tax returns of those earning £1 million or more in the UK be placed on public record](#) if Labour returns to power. I am sorry to have to disagree with something that John McDonnell is suggesting, but I think this is a mistaken policy.

The same Guardian article in which the suggestion is publicised has quotes from two people who I know well. One is Nick Mathiason of Finance Uncovered, whose work suggesting that the tax affairs of politicians be published [I noted here on Tuesday](#). I agree that this is an issue of importance: it is an unfortunate fact that around the world too many politicians appear to have benefitted from public office in ways that their official salaries cannot explain and transparency on this issue as a means to tackle corruption would seem to be of importance.

I also note the comment from Alex Cobham of the Tax Justice Network who said:

I would say maybe it's politicians rather than just the most wealthy we should be interested in. Ultimately we need to be more concerned about potential conflicts of interest, and trust HMRC is doing its job properly for everyone else.

I share his concern but go further for a number of reasons.

First, I think people are allowed privacy in their own affairs whoever they are.

Second, privacy and secrecy are not the same. As I say in '[Dirty Secrets: How tax havens are destroying the economy](#)':

Secrecy differs from privacy, because it deliberately withholds the right to information even when others are likely to be prejudiced as a result.

I oppose secrecy for companies and trusts because they can and often do create tax and other commercial and financial risk. Information on them is, then necessary on public record. But this is not true for individuals, who are always liable for their own actions. In that case the emphasis does not need to be on ending personal privacy but

has to be in two other areas. The first of these is that data is needed on how the taxable incomes of the wealthy are computed to ensure that tax reliefs does not unduly favour them, whilst the second has to be on the affairs of the companies and trusts that they might use to shelter their incomes from tax in ways that will never come to be reflected in their tax returns, which is the tax planning issue that John McDonnell's blinkered proposal completely misses.

Dealing with these issues in turn then, the requirement that should be imposed is that HMRC (or, I think, an [Office for Tax Responsibility](#)) should be tasked with identifying how the wealthy calculate their incomes. In other words it should be required to work out how those 16,000 or so people who declare £1 million of taxable income actually order their affairs as whole to reduce their gross income to the amount on which they actually accept liability for payment. So, for example, the Revenue should publish anonymised and maybe partially aggregated data by broad categories (those who are primarily employees, self employed, etc) on the gross incomes of these people i.e. the full amount they earn before the deduction of allowances and reliefs, and then how such allowances and reliefs, whether they be for pension contributions, donations to charities, allowable interest offset against rents or allowances for venture capital trusts, film investment and the like, reduce that sum to the amount that is taxed. This data is not known and would take considerable work to compile if tax returns were published in raw form (as I suspect John McDonnell is proposing) and yet is vital if proper decisions on tax policy are to be made, which should be his concern.

More than this though, the undistributed income of companies and trusts in which the wealthy also have beneficial interests as shareholders or as trust donors or beneficiaries should also be noted. This would be easier to do if the [European Parliament's suggestions on the disclosure of the ownership of trusts and companies](#) also noted on Tuesday were to become part of UK law, which would be a useful Labour commitment whether we are in the EU or not. If this was done then an estimate of the amount of income sheltered from tax by use of these arrangements could then be prepared and so the amount of tax avoidance could be estimated. This, again, is useful and even powerful information for use in tax policy preparation and so would be warmly welcomed, but it does not require that anyone involved be named: what is required is data so that informed action to change policy can be undertaken. Such policy change could, for example, reintroduce what were called 'close company rules' that once required that the income of what might best be called 'personal money box companies', which are almost solely used to shelter the income of the wealthy from proper rates of tax, be paid out as dividends to their owners so that this tax sheltering simply does not work. This would be a valuable change where publishing returns by itself up yields nothing. Similar considerations could be made for trusts.

There are then really useful things that could be done with regard to tax abuse by the wealthy. Publishing tax returns is not one of them. But there is an area where more publishing would make a big difference. If John McDonnell wants to really make sure tax is collected, as he should tackle abuse in the limited liability company sector. First the

absurd fact that more than 90 per cent of companies in the UK do not have to publish information on the tax that they pay should be changed. All companies of whatever their size should be required to publish details of their profit before tax and the tax they pay. Paying tax is the price expected of companies by society. It is the price they pay for the privilege of limited liability that they enjoy. This publication is then an essential change when it is widely recognised that many small as well as large companies abuse this privilege.

Then he must ensure that these accounts are filed and the tax is paid. I [wrote a draft law](#) to achieve this in 2013. It remains as relevant now as then. What it says is that if anyone uses a company to try to evade tax liabilities they become personally liable for the tax due even if they are notionally due by the company they own or direct. That would really help beat the tax evaders, who are a bigger problem than the tax avoiders.

John McDonnell has then chosen to pick on the wrong problem and is proposing the wrong solution. Labour really needs to get these things right for all our sakes.