

Locating tax risk - the way to tackle illicit financial...

Published: January 13, 2026, 9:12 am

These are the slides for the talk I presented in Beirut this afternoon:

Locating tax risk - the way to tackle illicit financial flows

1 There are illicit financial flows

- * This is a fact
- * It's also true we will never stop them entirely
- * This means everything we say today is about risk mitigation

2 The questions we need to address

- * What are the risks?
- * How do they arise?
- * What can actually be done about them?
- * Why is it worth tackling them?
- * Why is it worth expending political capital on this?
- * What are the tools we need to use?

3 What is tax for?

- * It is assumed that pays for government expenditure.
- * This is at best only partly true
- * Government spending can also be funded by:
 - * Borrowing
 - * Aid

- * Local currency creation

- * So while may have an important role in the funding cycle of government that is not its only use

4 Tax has other uses:

- * Creating macroeconomic control of an economy

- * This is through fiscal macroeconomic management

- * Underpinning the value of the local currency by requiring its use to settle tax liabilities

- * Income and wealth redistribution

- * Repricing market failure

- * Incentivising socially beneficial activities

5 The Joy of Tax

- * Put all these facts together and you have what I call ***The Joy of Tax***

- * Tax is the single most powerful peaceful instrument a government has to shape the society that it controls

- * The challenge of illicit financial flows is that they undermine any government's chance of achieving that goal

- * The big challenge of illicit financial flows is not then the money alone - however important that is

- * The big challenge of illicit financial flows is that they challenge the ability of the state to deliver a whole range of policy options that it wants to create on behalf of those who live in the jurisdiction for which a government is responsible

6 How to tackle this?

- * The choice to date has been to blame some now familiar villains

- * Organised crime

- * Those who are corrupt

- * Multinational corporations

- * Tax havens

- * The response is
 - * Anti-money laundering measures
 - * OECD BEPS
 - * Country-by-country reporting
 - * Calls for unitary taxation
-
- * Trust me, I buy them all
 - * But the time has come to go further

7 We need new tools to identify and tackle tax abuse

- * There are two key new tools:

1. **Measuring tax gaps**

2. **Undertake tax spillover assessments**

- * These require political will
- * And they require funding - if necessary from the IOs to help achieve this — which is something I am explicitly calling for

8 The tax gap (1)

- * The tax gap is a measure of the tax that could be but is not collected by a government
- * All countries have a theoretical tax yield they could collect based on current GDP and law
- * They don't get it because of the tax gap, which comes in five parts

1 The cost of tax bases not taxed, such as wealth (A)

2 The cost of tax allowances and reliefs a government grants (B)

- * Take these two off the theoretical tax base calculated on GDP and you get the technical tax yield. Then deduct

3 Tax evasion (C)

4 Tax avoidance (D)

5 Tax bad debt (E)

- * And you get to tax actually paid

9 The tax gap (2)

- * The tax policy gap is
- * Tax bases not taxed + tax reliefs given away
- * $= A + B$
- * The tax compliance gap is
- * Tax evasion + tax avoidance + tax evasion
- * $= C + D + E$
- * The total tax gap is:
- * Theoretical tax base based on GDP
- * Take away $A + B + C + D + E$
- * $=$ Tax actually paid
- * Every government had to know these figures, I suggest, or they're not in control of their economy

10 Tax spillovers

- * Tax spillovers assess the likelihood that one part of a tax system causes harm to another part of a tax system, either domestically or internationally
- * Tax spillovers happen domestically and internationally
- * They involve all taxes, but especially direct ones
- * And they involve the administration of tax as well as the taxes themselves
- * The IMF has tried to appraise them quantitatively but this has proved to be very hard
- * Professor Andrew Baker of Sheffield University and I now propose a qualitative measure

11 Qualitative tax spillovers - the assessment grid

12 Qualitative tax spillovers - the process

- * Four domestic taxes and four tax admin systems are marked for the risk that they create domestically first and internationally second**
- * Then the domestic tax system is appraised for the risks imposed on it from elsewhere**
- * The higher the score the bigger the risk**
- * The colour coding simply helps identify the big risks — they are in red**
- * The process is designed to identify the biggest targets for reform**

13 Qualitative tax spillovers —our suggestion

- * It's our suggestion every country could and should do a qualitative tax spillover assessment**
- * Then they will know what reform is really needed**
- * And how effective it might really be**
- * This is the way for all countries — and not just OECD ones — to reclaim the agenda on this issue**
- * We think it's time to use a systematic tool for each country to create its own demands for reform**