

Doing it automatically: the case for international tax ...

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*This is [reposted](#) from the Tax Justice Network with permission. It is written by Alex Cobham, the TJN CEO. I co-authored *Tax Us If You Can* with John Christensen in 2005, and created country-by-country reporting:*

This is a moment, in these strange times, to celebrate an ongoing success in the history of the tax justice movement. Automatic, multilateral exchange of information on financial accounts is the A of our [ABC](#) of tax transparency. It has been a campaign aim since our inception in the early 2000s, as the key to ending bank secrecy. It is the start point to unravel the enormous volume of illegitimately held global wealth.

*The OECD [announced](#) this week that “nearly 100 countries carried out automatic exchange of information in 2019, enabling their tax authorities to obtain data on **84 million financial accounts** held offshore by their residents, covering **total assets of EUR 10 trillion**” (their emphasis).*

Back in the day, the OECD was the stout defender of information exchange ‘upon request’. That polite phrase referred to a standard under which countries looking at a particular individual (no ‘fishing trips’ allowed) had to put together a small dossier to justify it, and then ask financial centres nicely for specific pieces of information. In many cases they still didn’t get it, because of some invented obstacle or other. That’s why we’ve always advocated automatic exchange: the annual, multilateral exchange of information on the financial accounts of other countries’ residents.

And how times change...

Tax Justice Network, 2005: The current state of the European Union Savings Tax Directive is far from ideal [but it] has established the principle of automatic information exchange between nations and is therefore a welcome step towards a global framework for automatic information exchange.

— ***Tax Us If You Can*** , [Tax Justice Network, 2005 \(p.40\)](#).

OECD, 2020: Automatic exchange of information is a game changer... The discovery of

previously hidden accounts thanks to automatic exchange of information has and will lead to billions in additional tax revenues.

~ OECD Secretary-General Angel GurrÃ-a, [30 June 2020](#).

Estimating the hidden sums

An important tactic we used to bring attention to the issue was to publish estimates of the volume of assets involved. Just how much money, potentially ill-earned and untaxed, was floating around the world while policymakers put their fingers in their ears and shouted ‘La la la! “Upon request” is the OECD standard!’?

A study published in 2005, [The Price of Offshore](#), drew on data published by financial industry sources and estimated the global total of assets held offshore by high net worth individuals at approximately \$11.5 trillion. With tax authorities providing little or no data on the scale of declared offshore financial assets, the proportion of this which was undeclared for tax purposes was literally, then, **unknowable**.



Front page coverage for The Price of Offshore, Revisited

In 2012, we published an update with a substantially more rigorous methodology: [The Price of Offshore, Revisited](#). Here, James Henry — one of our [senior advisers](#) and ***the widely published former chief economist for McKinsey's — utilises four different approaches to make the most of the available data, and provide a more robust estimate than any previous: some \$21 trillion to \$32 trillion.***

It's important to note, both in general and for this discussion in particular, that the estimate relates to a wide range of financial assets — but also excludes many non-financial assets. There is no way of stating with precision what share of the assets are declared to home tax authorities — although the evidence is clear that automatic information exchange [dramatically increases compliance](#). ***The 2014 estimates of Gabriel Zucman, Berkeley economist and ICRICT commissioner, assess a rather narrower range of financial assets and put their total at roughly \$8 trillion, of which around 80% is estimated to be undeclared to tax authorities.***

Petr Jansky and I survey these and a range of other estimates in our new book, [Estimating Illicit Financial Flows](#) — published with open access by

Oxford University Press. No method is perfect, because of the inevitable data problems — the very success of tax evasion depends on being uncounted. In part for that reason, policymakers not keen to take action were quick to pour scorn on the suggested orders of magnitude.

A measure of progress

There have been two critical steps on the way here: the EU Saving Tax Directive, which introduced a limited form of automatic exchange among EU member states; and the Foreign Account Tax Compliance Act, FATCA, which required the financial institutions of all other countries to provide equivalent information annually, and uni-directionally, that is, only one way, to the United States. At which point, the G8 in 2013 told the OECD to [get with our programme!](#)

This allowed the OECD to bring forward a multilateral instrument based on the EU approach, which would have been impossible without US permission. And although the Obama administration [u-turned](#) on its commitment to participate within a few months, the process was inexorably underway.

Now the OECD Common Reporting Standard is in place, with a couple of years of operation under its belt, and the OECD has announced new statistics on its coverage: 84 million accounts containing 10 trillion euros (\$11.2 trillion).

I'll come to the caveats below, but some positivity first. This is outstanding! Here's why.

First, the world is finally taking seriously the scale and threat of offshore tax evasion. The ability of governments to tax their elites, and to ensure they contribute to the societies from which they profit, is greatly improved.

Second, the numbers confirm at a stroke the orders of magnitude involved, and indeed those estimated by James Henry for the Tax Justice Network. Bearing in mind that the data refer to a much narrower set of financial assets than the Price of Offshore estimates; and that they exclude the US and many lower-income countries; there is clear confirmation here.

Now imagine if the United States participated in automatic exchange as well. The US is the largest financial centre, and takes second place on the [2020 Financial Secrecy Index](#) behind only the highly secretive Cayman. As such, the US is now the preferred tax haven for a great deal of foreign money — [the last holdout against transparency](#). The value of financial accounts held would likely swell to perhaps \$13 trillion or \$14 trillion if the US were to participate — and the share of that additional wealth undeclared to home country tax authorities is likely to be particularly high. For now, you can find Jim's latest estimates on [his site](#).

Third, as Jim pointed out in correspondence, the new numbers confirm an important point about the Tax Justice Network's approach. There is a virtuous circle built in. Progress on the ABC of transparency not only supports greater accountability and improved compliance directly. It also strengthens our estimates of scale, in turn raising the pressure for further transparency and the policy measures ultimately to end the abuses.

Sunlight disinfects, and the bigger the crack, the more pressure there is to open the door all the way.

But you're still complaining?

You bet. The OECD's Common Reporting Standard, as with the organisation's adoption of our proposal for [country by country reporting](#) by multinational companies (at the behest of the G20), has introduced major and quite unnecessary flaws. In both cases, these involve a systematic bias against lower-income countries and in favour of the biggest OECD members — tax is ultimately political, not technical.

*** First, the Common Reporting Standard fails to provide anything like the aggregate, bilateral data that is needed for accountability. Here, our colleague Andres Knobel [lays out the case](#). The data would ensure taxpayers could hold tax authorities to account, and also allow tax authorities to challenge taxpayers and other jurisdictions. The indicators are still to be determined for the UN Sustainable Development Goals Target 16.4 on illicit financial flows. Here, we have proposed measures based on bilateral, aggregate data reported under information exchange, and the equivalent values as declared directly to tax authorities, as consistent measures of the scale of illicit offshore assets ([chapter 6](#) of our book).**

*** Second, the OECD instrument unfortunately continues to not include most lower-income countries — and as mentioned, the biggest financial centre, tax haven USA, gets a free pass. The result is that OECD members benefit from the transparency enforced on financial centres, but not the countries that estimates suggest may suffer disproportionately higher revenue losses from the associated evasion. The partial and skewed form of adoption of the Tax Justice Network's proposal may for now have exacerbated the existing inequalities in global taxing rights.**

*** Third, we need to make sure we think of automatic exchange of information not as a one-time measure, but as akin to capital controls. The measures must continually be refined and tightened, as the unscrupulous find new ways around reporting (and paying tax). There will be large and growing **undeclared** offshore assets in non-reportable asset types, and these must be addressed with all speed as they emerge.**

What's next?

It's clear that the fact that the OECD did adopt the Tax Justice Network proposal for multilateral, automatic exchange of information on financial accounts, despite all the flaws that need fixed, is having dramatic impacts. ***Trillions of dollars*** of offshore assets are now in tax authorities' scope, that would not otherwise ever have been. We need to know more about them, and we need reporting to show tax authorities are acting on failures to declare — but we can see the world has already changed.

The old arguments have fallen away. The claims that such a scale of global, offshore assets was not credible; or that this type of coordinated policy response was unthinkable; these are gone.

And further change is coming. Trillions of dollars more, especially those of lower-income countries excluded by the OECD, remain out of the scope of tax authorities. As in the corporate tax reforms, the OECD has increasingly confirmed that it ***cannot or will not act as an honest broker.***

Globally inclusive measures are needed instead, and the high-level UN FACTI Panel must take up this challenge when it reports next year. The Panel is now actively assessing the many weaknesses in international arrangements for Automatic information exchange; for public registers of Beneficial ownership; for Country by country reporting by multinationals; and much more. In their initial evidence sessions, the Panel has heard many calls for a UN convention, to ensure fully inclusive application of the ABC and to create within the UN system a space for genuinely global negotiations of corporate tax rules.

The remaining element for the Panel would be to take up the recommendation for a UN Centre for Monitoring Taxing Rights. This is a proposal I put forward in The Uncounted, a new book published by Polity Press (and kindly listed by Martin Wolf as one of the Financial Times books for Summer 2020). The Centre would be responsible for the collation, analysis and publication of global data on cross-border tax avoidance and tax evasion, and for tracking the resulting inequalities in taxing rights between countries. While the quality of ABC and other data available would eventually make estimations unnecessary, the Centre would likely play a role initially in driving forward the quality of international estimates such as the Price of Offshore.

Lastly, one to flag. In September 2020, the Tax Justice Network and key partners will be publishing a major set of new numbers...