

Tax ethics have never been as important as they are now

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I made a presentation to the [Tax Co-op meeting](#), based in Montreal, at 10 pm last night on the subject of tax ethics. I said as part of my introduction in a panel discussion:

I would like to thank you for asking me to speak today at what is, for me, a very late hour.

I'd also like to add that I am fascinated by this choice of topic for tonight.

That's because I think there is a really strong ethical duty at this moment for those engaged in the tax world to truly understand the interaction between tax and the way governments can fight the coronavirus crisis.

I am only too well aware that many people think that this relationship is very simple. It is an almost universally held belief, including amongst tax professionals and tax campaigners, that tax funds government spending.

However, in very many countries the simple fact is that this is not true. Most countries now fund government expenditure through a combination of tax and borrowing, whilst in very many developed economies quantitative easing or other forms of what I called direct monetary funding now also play a significant part in this process.

For example, and to refer to the UK from where I am speaking, this year there will be a record government expenditure deficit of around £350 billion. But so far every single penny of that has been funded through quantitative easing and there has been literally no new government borrowing or no new dependence upon taxation to fund the expenditure that has taken place to date to tackle the coronavirus crisis.

I say this because too often tax debate focuses upon the ability, or otherwise, of tax to raise money, and of course some taxes exist mainly for that purpose.

But, my plea tonight is that we, as tax professionals, should not presume that this is

true of all taxes. Tax is also part of fiscal and social policy too. Our job, then, is to understand the greater role of tax at this time when government might have a bigger role to play in our economies than it has had for a very long time.

But this might challenge our familiar assumptions. For example, the commonplace belief that tax should be raised to pay for the coronavirus crisis might, in fact, very well be wrong.

In my role as a political economist I have focused very heavily upon macroeconomics: that is the funding of the state as a whole. In that context, raising taxes, overall right now would be, for most countries, disastrous. That's because it would reduce demand for private-sector goods and services, and the result would be even greater unemployment than we already face in many countries.

So, for example, we have a duty to understand that, and to appreciate that this is a moment when a government might want to borrow rather than tax.

But it is also a moment to appreciate that at the level of the government thinking about tax, not all tax dollars, pounds, euros, yen or whatever are equal.

For example, and to refer again to that problem of the shortage of demand that is going to create unemployment around the world, taxing the wealthy more at this moment has very little impact on demand. That is because any tax increase on the wealthy can be paid out of their savings, which by definition they have.

But, in contrast, giving a tax cut to the poorest in our societies at present increases what they can spend, and so is likely to be profoundly beneficial as a mechanism to increase demand and so tackle unemployment, and so help people through the coronavirus crisis.

There is, then, at this moment a very good reason why governments around the world should want to tax the rich more, whilst cutting tax rates for those on lowest pay without seeking to, overall, increase the amount that they collect in tax from their economy, because this move will, in itself, stimulate demand right now which is exactly what is required to ensure that jobs are preserved.

I am, of course, aware that there are many tax practitioners who are none too happy about seeing increase in taxes on wealth, at all. But we are talking ethics tonight and I will suggest to you that those reservations should be laid aside right now for the common good.

And I will also say the same of those who promote tax avoidance, let alone those who might, dare I say, turn a blind eye to tax evasion. That's because I know that in the UK, and in many other countries, there are hundreds of thousands of businesses who are profoundly vulnerable to failure right now in a way that could be immensely costly to

our chances of economic recovery from this crisis over the years to come. Those businesses are already facing an enormous risk of failure. And, for the many honest businesses that exist, to have their chances of survival threatened by those who avoid or even evade their tax liabilities, giving them an unfair tax advantage, just increases that risk, whilst leaving society with a chance that the survivors in the corporate world might be those willing to turn the greatest blind eye to the contribution that they might make to society.

My plea to you, as tax practitioners, is to understand this.

If I can be honest, few professions are as selfish as ours. We have virtually defined our professional ethics around an obligation to increase the personal wealth of our clients irrespective of the cost to society at large. I readily admit that I have never been happy with that, but I know that a substantial number of practitioners are. Well, if we are, again, referring to ethics, then this is the time for that ethic to change.

The ethical challenge to the tax profession at this moment is, I would suggest, threefold in that case.

In the first instance, it really is time that we understood the real role of tax within the macroeconomy of the countries of which we are a part, so that we can truly understand the way in which tax systems might have to adapt to the crisis we face so that the most vulnerable, in particular, in our societies can be supported. I suggest that every professional institute should now be providing teaching on this issue and that it should be on every professional syllabus for examination study.

Second, now is also the time for us to appreciate that we have to explain to our clients that some previously accepted behaviours cannot be tolerated if we are, as communities at large, to survive this crisis, which is the only way we can do so. In that case we might also have a duty to explain to our clients why, for the time being, higher rates of tax may be appropriate in their cases, even if others need to benefit from tax cuts.

And third, we have a professional duty to recognise that tax cheating destroys fair markets, undermines our businesses, crushes honest employment, and denies people the choices that they expect within the mixed economies in which we all live. If ever there was a time to stand up to tax cheating, this is it. The very survival of the markets in which, I suspect, many of us want to place a lot of hope with regard to our recovery, really depends on it.

In summary, this is the moment when tax ethics has ceased to be personal. Tax ethics are now about our role, as tax practitioners, helping to preserve our societies in the face of a challenge that none of us ever expected, and which will, I regret to say, be much bigger than many of us are as yet willing to believe. This is the moment for tax ethics to come to the fore. They have never been so important.