

The future direction of tax justice

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I [noted my reasons for concern about the direction in which the tax justice movement is moving on this blog yesterday](#). I described the strategy that many tax justice organisations are adopting as being grossly irresponsible. That is because I can see no benefit arising to developing countries from their stated goal of having international tax agreement negotiation shifted from the OECD to the United Nations.

If that all seemed a little negative, I apologise, because that is not my usual style. Throughout the history of the tax justice movement, and throughout my history of campaigning activity, it has always been my policy to put forward solutions to problems rather than just moan about their existence.

In that case it is appropriate to note that when I was challenged to justify my claims with regard to the current direction of tax justice movement I did put forward an alternative strategy. When doing so I noted that the focus on international corporation tax that the tax justice movement has had to date was one that was deliberately chosen by John Christensen and me. In 2005 we thought this the best way to put our issues of concern on the front pages of newspapers. As a policy that succeeded.

However, as was always apparent from that 2005 edition of [Tax Us If You Can](#), which John and I co-authored and which (although we did not know it at the time) set out the tax justice agenda for a decade or more, we were well aware that tax justice should embrace many more issues than this. Quite remarkably, as I noted Danish researcher Dr Rasmus Christensen [saying recently of that publication](#):

Among its key policy asks – read this carefully now [were] – country-by-country reporting (which was materialised), public beneficial ownership registries (which has materialised), general anti-avoidance rules (which has materialised), automatic exchange of information (which has materialised), tax assistance for developing countries (which has materialised), and unitary taxation of corporate profits (which has materialised somewhat). (There were also asks for citizenship-based taxation and general progressiveness of taxes, which have been less successful.)

Given that extraordinary success I suggest that the time has now come for the tax justice movement to adopt a new campaigning focus. I would suggest the following should now be priorities:

1 . Domestic resource mobilisation

Substantial domestic resource mobilisation to enhance the capacity of tax authorities throughout the world is now needed, not least to use the data that is now being supplied from tax havens and multinational companies concerning offshore activities. To secure this data, as we have, and then not demand the resources to make use of it makes no sense at all, and yet this demand is something that I rarely hear said.

2. Appraisal of tax system effectiveness

Proper mechanisms to appraise the effectiveness of domestic tax systems are now a priority so that required reforms can be identified. These should also incorporate appraisal mechanisms that identify the risk to the effectiveness of those domestic tax systems resulting from the actions of other jurisdictions, and in turn the threat that they pose to other jurisdictions elsewhere. The [work that I have done on normative tax spillover analysis with Professor Andrew Baker of Sheffield University](#)

provides indication as to how this might be done. I am delighted that the Global Initiative for Fiscal Transparency, which is financially backed by the IMF and the World Bank, has supported this approach and that trials are now being considered in some countries, but if tax justice campaigners were really keen to support the tax systems of developing countries I suggest that they would be campaigning for the OECD to lead this process, building on its success with Tax Inspectors Without Borders, which was originally an initiative from John Christensen. The impact that this might have is indicated by a paper published in the American Economic Review this month, which suggested that in Indonesia an increase in tax authority resources was equivalent to an 8% increase in the corporate tax rate for the companies subject to review. If we are really worried about the current international tax deal setting too low an effective rate of tax (and I am) doesn't this evidence suggest that the most effective alternative step to take is to enhance local tax collection?

3. Tax gap appraisal

What I then suggest is that the next step should be to demand effective tax gap appraisals as part of the tax transparency cycle of developing countries, [which once again my own work has shown to be possible](#). **Conventionally the tax gap is considered to have three components:**

- * Tax evasion;**
- * Tax avoidance; and**

* **Unpaid tax.**

I extend this logic so that two additional tiers are recognised:

* **Tax not collected because of the decision not to tax a base e.g. wealth;**

* **Tax not collected because of the grant of allowances and reliefs.**

Using tax gap analysis in this way not only permits a numeric appraisal of the effectiveness of a tax administration to compare with the normative review that a tax spillover appraisal can provide, but also permits an appraisal of the progressiveness of the system since many allowances and reliefs and total exemptions from tax as a consequence of choosing not to tax a base are biased in favour of those with higher income and wealth within any society. Isn't that appraisal an objective of the tax justice movement?

4. Appraising the transparency of the tax budgeting and accounting system in use in a jurisdiction

This issue, which is extensively considered in the work that Andrew Baker and I [**have done for the Global Initiative for Fiscal Transparency**](#) notes that whilst work has often been undertaken on the expenditure side of government activity very little attention has been given to the revenue side. The consequence is that tax budgets are very often superficial and are often subject to inadequate appraisal. In addition, accounting for outturns that compares revenue actually generated with budget forecasts made is frequently absent, meaning that effective feedback mechanisms to enhance the effectiveness of tax administrations do not exist in many countries. If we are really concerned about increasing the effectiveness of tax systems in all countries, but most especially developing countries, then this issue has to be on the tax justice agenda.

It is my suggestion that if the focus of the tax justice movement was now shifted to these four issues the amount of revenue that would be raised in the developing countries that are its primary concern would be substantially higher than any yield that could result from further significant effort being expended on international taxation issues, however significant they might have been to date.

As yet no one has responded to the challenge I made to some in the tax justice movement to rebut these claims, but I would be very pleased to hear them. They can offer an explanation here if they wish, but it has to be reasoned and argued, and not simply be political rhetoric because that has never worked in the tax justice arena.