Transcript: The Taxcast, Episode 167: Illicit Financial Flows

Naomi Fowler: Hello, and welcome to the Taxcast from the Tax Justice Network. I'm Naomi Fowler. Coming up later, protests have spread across Europe over the high cost of living and the underfunding of public services.

[Street protest sounds, France]

Tijmen Tuinsma: In 2022, about 60 billion US dollars left France illicitly and untaxed, and half of that went to five European neighbours. So that's a tax loss of 10 billion for France in one year due to these five neighbours alone, and that 10 billion could have paid twice, for example, for the improvements that they promised in their education system after the protest recently.

Naomi Fowler: We've got new tax justice research which shows why no school needs to be crumbling away without enough teachers, no health service needs to be stacking up patients in corridors, and there's no good reason we can't have affordable houses and live decent, secure lives.

Tijmen Tuinsma: Every country, essentially every country all over the world loses to this system. So also every country has something to gain by fixing it.

Naomi Fowler: So, why are so many governments leaving all that money on the table? Whatever you thought you knew about illicit financial flows, we've got some surprising results to share with you from our latest research.

Before that, here's a reminder really that there's good news everywhere happening all the time. It's important to know that so each Taxcast we're gonna bring you public good news headlines from the brilliant Ben Phillips. If you want to know more about him, I did one of my favourite Taxcast interviews with him a while ago called How We Win, episode number 108. I'll put the link in the show notes. So here's his public good news headlines, and this is what fairer taxes can do for us.

Ben Phillips: Brazil is quadrupling paternity leave. Seattle is offering every school kid free breakfast and free lunch, and South Korea is extending free education to all three-year-olds. Welcome to The Public Good News, Parents Edition.

Brazil is quadrupling the time off work that new dads get to bond with their babies. Right now, it's just five days. But on 1st of January 2027, it will go up to 10 days, then in 2028 to 15 days, and in 2029 to 20 days. We dads know this,

the only joy greater than being a dad is being a dad with time to be with your kid.

[Swoosh]

Seattle is now offering free breakfast and free lunch every day to every child in every school. It is not, as in some other places, allotted just for poor children, because means-tested approaches leave many hungry kids denied meals just for being above some arbitrary line or for not being able to get their parents to fill in all the right forms, and they leave children who are getting support labeled and stigmatized. No, it is for all kids, breaking bread together as equals.

[Swoosh]

South Korea is extending free education to all three-year-olds. They already had it for all kids six and over, then last year extended it to all five-year-olds, this year to all four-year-olds, and next year to all three-year-olds.

Governments, it turns out, can do things. These good examples undercut the excuses of others. The lesson of these three stories is not that we can sit back and relax. It's that we mustn't give in. We get told again and again that universalist policy just can't be done. Thankfully, there are active citizens like you who insist it must be done, and it is your determination that enables the victories in which it does get done. And that is the public good news.

Naomi Fowler: Thanks, Ben. Love it. It's easy to forget how life-changing tax can be and how important it is to never stop pushing for good public interest policies. Ben's going to be back with his public good news in the next Taxcast episode.

And speaking of good public policy, US President Trump's Republicans have been punished in the 2026 midterm elections. But what may have gone a bit under the radar was a very important kind of referendum vote in California to introduce a pretty modest wealth tax. The proposal was a one-time five percent tax on billionaires on just two hundred Californians. Unfortunately, voters were swayed to vote against it.

Lorena Gonzalez: You know, um, billionaires have spent $350 million to try to convince people lies about what this tax does.

Naomi Fowler: This is Lorena Gonzalez, President of the California Labor Federation.

Lorena Gonzalez: This amount of spending is unprecedented, and people are being told lies every single time they turn on the television, every time they turn on the radio, every time they go to their mailbox. Billionaires got a tax break under President Trump. They've also gotten richer, a lot richer, and we are literally paying for that tax break, and we're paying for it in our healthcare.

Naomi Fowler: Healthcare premiums are rising, and as many as 3.4 million Californians on a low income are at risk of losing their free or low-cost health coverage. That's something the billionaire tax could have saved them from. He's Here's Lena Gonzalez, state senator for District 33 in California:

Lena Gonzalez: $2.4 trillion is what the over 200 billionaires in the state of California are making on an annual basis. This is extraordinary when the average Latino household income of four to five people only make about 50 to $70,000 a year. They are hardworking hotel workers, truck drivers like my dad, janitors. They are working in our kitchens. They're doing the hard work every single day, and for what? The billionaires make too much money in this state of California.

Naomi Fowler: Those billionaires and their money persuaded enough voters to say no to something that would have helped Californians secure access to often life-saving healthcare and help to get enough to eat. This is Eliza Marquez, Alameda County Supervisor, it's a kind of city councillor:

Elisa Marquez: We're in this position because of design. It is the clown in the White House and he is gutting our safety net. The billionaires have plenty of time to make up this money. It'll take them a few months to make this money in reinvestment.

Naomi Fowler: Quite. And the results of this are truly awful. This is Mayra Castañeda, a, a health worker in California:

Mayra Castañeda: The cost of living is rising. Families are worried about their economic futures, and they are frightened by the lack of access to affordable healthcare. This is all because Trump's big beautiful... I mean, let me just say Trump's big ugly bill slashed funding for healthcare in California to pay for more billionaire tax breaks.

And I've I think it's important to share a story of the many that I have, that is currently taking place. It's not even January 2027, and as a healthcare worker for 30 years in a trauma centre, we are already seeing the impact. And let me

take a quick moment to share the story of the six-year-old little girl that was brought into the emergency room.

Naomi Fowler: This next part's upsetting, so if you feel you need to skip it, hit the forward button about two and a half minutes.

Mayra Castañeda: Her dad's premium went from $150 to $750, and that was now. I'm not speaking about the future. And so this this family had to decide whether to cover the premium for the medical insurance or to put food on the table. And so obviously, the father had to make a decision, didn't end up having insurance. Um, his daughter ended up getting sick, started with tummy aches. They figured it was a stomach bug. Day number two, the child started with fever. They figured it was the stomach flu. Day number three, the child didn't want to eat. They figured it was some kind of infection, and instead of being able to bring their child to an urgent care or the emergency room, they opted for asking the neighbour if they had any leftover antibiotics from their child. And so they treated the patient one more day at home. When they finally realised on the fourth day that the child was not doing well, was not keeping any fluids in, she was brought to the emergency room. This child was quickly rushed to the operating room because she had a ruptured appendix. A ruptured appendix for four days at home because the parents had lost coverage.

This child goes into the OR, comes back. Now she's in an intensive care unit intubated. The look on, on the parents' eyes, how upsetting, how sad, how confused, how scared they were because now they, they were fighting between the child, fighting the death, right, like at a deathbed because they failed. I- in their own words, they failed their child. They failed by not having coverage. They failed by thinking twice about bringing this child to the emergency room. Um, I walked the, the mom and dad down to the chapel, told them that we would pray and that their child would be okay. I told them I would check on them the next day.

The next day, coming up to the unit and a nurse stops me and tells me, "Hey, where are you going?" And I said, "I came to check on the child before I, you know, clock into work." And she says, "That child, that baby passed away last night." This six-year-old passed away because - her parents could not afford the, the premium cost. Parents thought twice about bringing this child to the emergency room because they were worried about a medical bill. This is not something we should be even thinking twice about. This is our, this is our children, our grandkids, our neighbours, our nieces, our nephews, our fathers, our mothers. This is not what we should be thinking about. Not now, not in the United States, and definitely not in California as the fourth largest economy.

Naomi Fowler: Truly awful. There is good news, though, from Washington State, where voters there chose to keep their millionaires tax. I reported on that tax and how transformational it's been on episode 164 of the Taxcast. The title is Wealth Tax Wave in the USA. I'll put that into the links in the show notes.

[Music transition]

Now, new research from the Tax Justice network looking at tax losses from illicit financial flows or IFFs. If you go to our new To our Illicit Financial Flow Tracker on iff.taxjustice.net, you'll see a world map showing those estimated flows moving around the globe. You can click on your own country and find out how much tax revenue it's losing and which countries it's losing out to. The tracker shows the biggest enabler countries, mostly through offering financial secrecy or low tax rates. And you can also see who the biggest losers are. And the results might surprise you because often some of the countries that are the biggest enablers are also the biggest losers in monetary terms. Before we get to that, let's just get our heads around what illicit financial flows or IFFs actually are. Here's the Tax Justice Network's Miroslav Palansky:

Miroslav Palansky: There's been a long debate about what actually counts as an illicit financial flow and in particular whether tax avoidance should be included, since it isn't always strictly speaking illegal. And it took until 2020 for the United Nations to agree on a statistical definition in which IFFs are flows that are illicit in origin, transfer or use that reflect an exchange of value and that cross borders. That debate is now feeding into the negotiations on a UN tax convention. In 2024, countries agreed that the convention should address tax-related illicit financial flows, and the negotiations are due to finish in 2027. So we feel this is a really good moment to be talking about what we actually know about the size of these flows. And that's where things basically get difficult because illicit financial flows are almost by definition hard to see. And most existing estimates are built from aggregate trade and financial data, and they give us a headline number. They very rarely tell a tax authority or investigator which channels and which partner countries and which actors are driving the risk in their own country. So in other words, they don't tell you where to point limited audit and enforcement resources. And that's exactly the gap that our project has been trying to close.

Naomi Fowler: So what's interesting about the IFF tracker is that it shows the biggest enablers or the offenders and the biggest losers. And as I said, often some of the countries that are the biggest takers are at the same time the biggest losers in monetary terms.

Anyway, there are three types of illicit financial flows. So there's grand corruption - that's abuse of power by senior public officials or political leaders. That's just a smallish amount of the estimated flows that tends to get most of the media headlines. Second, you've got the laundering of criminal proceeds. That's a quarter to a third of the total. The media tends to come out with a story focused on that every so often, quite juicy stories there. But third, and the biggest proportion, so that's most of it, is tax evasion by wealthy individuals and by commerce. The biggest element of illicit financial flows is down to corporate tax abuse. Here's Tax Justice Network researcher Tijmen Tiunsma:

Tijmen Tuinsma: You can't just measure illicit financial flows. There's no direct data on it because it is all hidden. So you have to look into other kinds of data and use statistical or other research techniques to estimate out of that what illicit financial flows are. You can do that by looking at, for example, trade data, which cover how multinationals move their money around globally. Corporate data is very useful in this as well. There's financial data on international banking that helps a lot. So as an example, the Bank of International Settlements has international banking data where we can see if a French tax resident has money in a Swiss bank account, then we can see that. We cannot see that for that individual person, it's important to say, but we can see it on an aggregate basis. So we can see that all French tax residents own this much money in Swiss bank accounts, for example. That doesn't necessarily all constitute an illicit financial flow, but some of it may be hidden to the French tax authorities. IMF data have a lot of information on the foreign direct investment by multinational companies, country-by-country data on where multinationals locate their profits, where they have their economic activity. So then we apply these research methodologies, these kind of datasets, to get our best estimates of what part does indeed constitute an illicit financial flow. So we can get a good estimate of, what they might be.

Naomi Fowler: One thing we're always pointing out at the Tax Justice Network is that the global tax rule-setting story is still very much a colonial hangover in terms of who makes the rules and to whose advantage. That's basically mainly former colonial powers at the OECD. That power is shifting to the United Nations though, where countries are negotiating right now on a UN tax convention. At the United Nations, all countries have a seat at the table, at least. And the process of the global tax reform has been led by the African Group from the start. So, from that perspective, what Tijmen says here about some of the results of our illicit financial flows tracker is no surprise:

Tijmen Tuinsma: What the tracker does best is showing the worst offenders and the biggest enablers. The IFF Tracker that we created, it's a great tool.

You'll see it depends a little bit on the country and the type of flow, but you'll see in general that some of it does go to some of the typical tax havens, the small islands. Usually they are British Overseas Territories or Crown Dependencies, but also a lot and usually more flows to European tax havens. So you'll almost always see Ireland pop up. You'll see Luxembourg, you'll see the Netherlands pop up. And you'll also see that the UK and the US attract a lot of illicit financial flows out of other countries and some large Southeast Asian financial centres do as well.

The total IFFs leaving Africa causes about six billion in tax losses across the whole continent, and almost a third of that is due to just five countries attracting that. So that's the UK, Singapore, Switzerland, Ireland, and Hong Kong. So these five countries together are already responsible for two-thirds of our estimated illicit financial flows out of Africa. They are not the small Caribbean islands that everyone thinks of when we're talking about tax havens or offshore wealth. It's really these often Western, large economies that create all of this harm.

Naomi Fowler: Wow. That's interesting. Whether you look at Global North or Global South, there are, there are things that should worry all those populations but what might be the most surprising for people is that most of the wealth and finances illicitly exiting European countries' economies solely for the purpose of cheating on tax goes to other European countries.

Tijmen Tuinsma: Exactly. Yeah, this, this is crazy. For such a region with such close economic cooperation, you would think they wouldn't steal each other's taxes, but they do, yeah. More than half of the illicit financial flows leaving the EU, so we, we estimated about three hundred and seventy billion in illicit financial flows left the EU in 2022. And more than two hundred billion of that, so more than half, went to European neighbours.

France, for example, in 2022, about sixty billion US dollars left France illicitly and untaxed, and almost a quarter of that went to Switzerland. Then a fifth of that went to the UK, almost five billion to Ireland. Also significant figures to Luxembourg and the Netherlands, so already half of the sixty billion leaving France went to those five European neighbours. So that's a tax loss of ten billion already in France in one year, which could have paid twice for the improvements that they promised in their education system after the protests recently. So it's very significant money. That's, yeah, happening in some kind of Europe-on-Europe cannibalism almost.

Naomi Fowler: Yeah. I like that characterisation 'Europe on Europe cannibalism' because that really is what it is, and that's just not what people would expect. It's just really interesting that France and so many other countries now, they're so desperate for tax revenue and that's absolutely something that they can take action on. We'll talk about the solutions, but maybe before that we could talk about the Global South countries because there's a whole other story going on there as well.

Tijmen Tuinsma: Yeah, absolutely. And it's even a bigger problem for developing countries. When we published the tracker I was contacted by a journalist from Bangladesh, for example, who wanted to, to write a story about the money illicitly leaving their country untaxed. And they identified on the tracker that these illicit financial flows out of Bangladesh increased sixfold from 2016 to 2022. So it's a massive increase. And in Bangladesh they lost about half a billion in tax revenue in the latest year available in the data. So that's not the same kind of money that's happening in France or in other large economies. But for developing countries relative to their size to their tax budget, it's very, very significant. I think in Bangladesh, they had about forty billion in tax revenue total in that year, so half a billion is a really big dent in that budget.

In Africa as well, in Ghana, for example, they lost between two and three percent of their total tax revenue due to these illicit financial flows going out of their country, without them being able to tax it.

So yeah, this takes away a lot of money on the table for these countries that they need to keep developing. I mentioned Africa before. As a whole continent they lost twenty-two billion in money just leaving the continent in illicit financial flows, with a tax loss of six billion.

So yeah, that money would go so far in helping a lot of these countries develop. But instead, it flows to those big countries in the West or in the global north that I mentioned before, that are facilitating these financial flows and, yeah, taking away the opportunity for developing countries to collect their taxes.

Naomi Fowler: Yeah. And while, I mean, while we're talking about country examples, you're sitting in the Netherlands, which you know has long had a corporate tax system that's quite popular with multinationals. Anything to say from that position?

Tijmen Tuinsma: Well, yeah, absolutely, of course. I think it's very natural when anyone opens the IFF Tracker to kind of go look at their own country and

try to find out what happens there. It, it was not a surprise for me 'cause I know already how much tax abuse the Netherlands enables globally.

But I think the IFF Tracker is, is kind of a cool tool to really visualise this as well and really get some big picture numbers on what's actually going on, and yeah, it just confirmed for me again the big role that the Netherlands plays in facilitating tax abuse all over the world.]It keeps popping up. Whichever country you click almost, the Netherlands is usually in the top 10 of countries that they lose out tax revenue to. So yeah, for me, that was kind of what we call in Dutch, having your nose pushed into the facts. So just, yeah, being shown something so clearly that you can't ignore it anymore. And I hope policymakers in the Netherlands and those other countries that facilitate the IFFs will indeed not be able to ignore it anymore.

Naomi Fowler: I like the Dutch expression. How do you say that then, in Dutch?!

Tijmen Tuinsma: Uh into the facts? Uh so yeah, uh having uh je neus in de feiten uh gedrukt krijgen.

Naomi Fowler: Very nice. We say rubbing your nose in it.

Tijmen Tuinsma: Exactly.

Naomi Fowler: Similar, similar. Um, so what money is flowing out of the Netherlands that they're losing to perhaps to their European neighbours?

Tijmen Tuinsma: The Dutch numbers they are significant sums as they are for every country. But the thing about IFF Tracker is that it's such an easy tool that I can just quickly look it up. So yeah, I can see that -

Naomi Fowler: Oh yes, I'm interested to know.

Tijmen Tuinsma: - that in the Netherlands we lost 8.9 billion in 2022, and a lot of that has been to European neighbours. Yeah. Uh, the UK, um, has been the, the largest facilitator of illicit financial flows…

Naomi Fowler: - Sorry about that!

Tijmen Tuinsma: …from the Netherlands. Uh, Ireland is there again, Switzerland is there again. Yeah, so you can very quickly look this up for any country of your interest.

Naomi Fowler: Are there are any particular countries that the tracker shows up as being particularly big losers in all of this?

Tijmen Tuinsma: Yeah. The biggest one, at least just in absolute monetary terms is the US. That's just, you know, it's the biggest economy, and there's a lot of money illicitly leaving the US untaxed. And second is the UK. So yeah, in really in absolute terms it's the really big internationalised economies, connected economies that lose the most.

In absolute terms, developing countries, relative to their size, lose at least as much, so the tracker just shows the absolute values and then it may look like like Ghana is losing a lot less than the UK, but relative to you know, their tax budget, to their economy, to their size, they tend to lose at least as much.

In absolute money terms, the US loses more than a hundred billion and no country comes close. The only countries that don't lose are those that barely have taxes anyway, like UAE. The tracker shows that some money illicitly leaves the UAE but they don't lose any taxes from it because they wouldn't have taxed that at home anyway.

Naomi Fowler: And I would have thought with the UAE, uh, a big taker. There's a lot of flows going out there, to the UAE, and we've seen that climbing in the Gulf States in general, so I'm sure they're a big offender.

Tijmen Tuinsma: Absolutely. Yeah but every country, essentially every country all over the world loses to this system. So also every country has something to gain by fixing it.

Naomi Fowler: How do we stop this from happening?

Tijmen Tuinsma: That's the main important question that we should all ask ourselves. There are policy reforms to stop these tax losses. We advocate for these solutions with the Tax Justice Network, transparency reforms which give the tax authorities all the necessary information on their taxpayers, even when they have their wealth abroad or they have their profits elsewhere, to be able to still tax them according to their national tax system. There's also a tax reform that would allow countries to tax multinational companies based on where they have their economic activity, where they generate their profits. 'Cause right now they shift their profits artificially to low tax jurisdictions or to tax havens. So with what we call unitary taxation, formulary apportionment it basically would allow countries to tax companies where they play rather than where they say.

And then there's transparency reforms, including public country-by-country reporting which would allow a lot more information on where those multinationals are active, where they have their profits. And then there's full automatic exchange of information, which would allow tax authorities to know much more about the wealth abroad that their taxpayers have and strong beneficial ownership to basically clarify who owns what and where.

The cool thing about the tracker is that we built this kind of tool in there which we call a policy scenario analysis tool, where we have these four policies, and then as a user, you can toggle these policies on or off in specific countries or globally, whatever you're interested in. And you can see what, based on, you know, the evidence that we have now on what these policies would do, the IFF Tracker recalculates everything according to the policy scenario that you set as a user. So that very quickly gives you a picture of kind of the potential of these reforms.

The tracker shows that we can mitigate a lot of these tax losses anywhere in the world. So that's in developing countries, but also in the Netherlands, also in Europe, also in the US. In a very, very perfect policy case, it could even fully eliminate all of these tax losses. So yeah, there's work to do for policymakers, but there's very big potential here.

Naomi Fowler: Big potential indeed. All eyes are now on the United Nations negotiations in Nairobi starting at the end of November 2026, going into December 2026, and we're gonna let you know how that's going in the next Taxcast.

Just as I'm about to put this podcast episode out, the talks in Antalya at COP 31, the United Nations Climate Summit have failed. And it might make you despair and think multilateralism can't work. But that'd be the wrong lesson to draw from this according to my colleagues.

So firstly, addressing the climate crisis can't happen without the reform of global tax rules. And secondly, with the COP climate talks, a handful of countries can derail things for everyone else, which is exactly what's happened. But when it comes to the United Nations tax convention negotiations, if consensus can't be reached - and we know it can't - decisions on the main convention framework can be carried by a two-thirds majority vote. Blocker countries have already been unable to stop progress towards the UN tax convention. They may have managed to water some things down, and they continue to be very unhelpful but at the UN talks, the African Group have played a strong leadership role, and the blocker countries are in a minority, so

remember that. All's not lost. And tax convention negotiators can learn from the failure of COP and build fair decision-making rules in, right from the start. They can work closely with climate crisis needs and with other conventions, and Nairobi is the place to do that. So, thanks for listening. We'll be back soon. Bye for now.