Tackling corruption through taxation: The power of co-operation

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Why is it so important–and urgent–to strengthen co-operation between tax and anti-corruption authorities?

"Every dollar that a corrupt official or a corrupt business person puts in their pocket is a dollar stolen from a pregnant woman who needs healthcare, a girl or a boy who deserves an education, and communities that need water, roads, and schools." (Jim Yong Kim, President of the World Bank Group)

Every year, bribes eat up an estimated US$1,500 to 2,000 billion, the equivalent of 2% of global GDP. And this is just a tiny fraction of the corruption that weighs on local businesses, fuels terrorism, complicates the refugee crisis and slows down progress on climate change reform. Corruption destroys trust, distorts competition and squanders people's skills. It is a drag on development.

The fight against corruption and bribery is built into the UN's Sustainable Development Goals. But it will not be won without deploying our strongest weapon: co-operation. Tax inspectors are ideally placed to spot suspicious transactions. And law enforcement officials are ready to investigate and prosecute cases that they single out for irregularities.Yet how many international bribery cases did tax authorities uncover between 1999 and 2017 that went to court? The answer, thunders Drago Kos, Chair of the OECD Working Group on Bribery, is… 1%. Only five countries sent cases to court that had been flagged by their tax authorities.

So, we have investigators and prosecutors pursuing corruption cases. And we have tax inspectors who have all the information. But despite the obvious synergies, the two teams rarely co-operate. Meanwhile, in the criminal economy, the bad guys do, and business is booming.

Drago Kos used to be a football referee. Now he wants to blow the whistle on bribery. He says it starts with an appropriate legal and institutional framework. But here's where it gets interesting. While tax authorities are legally required to report suspicious transactions to corruption investigators in many countries, it is optional and even, prohibited, in some countries on the grounds that the relevant information is confidential. Mr Kos says that countries need to authorise co-operation on corruption investigations and prod tax authorities and law enforcement officials to work together.

Evidence shows that when different departments work together, they get results. The 2015 FIFA case is a well-known example. What many people forget is that the corruption scandal over the world governing body of football's awarding of the 2018 and 2022 World Cups began as a tax investigation in 2011. Don Fort, chief of criminal investigation at the US Internal Revenue Service (IRS), recalls that the IRS and the FBI worked the case together from the beginning and shared all the information they had. The result was a textbook example of how to conduct an investigation and a lesson in co-operation.

Don Fort has seen too many cases fail because of the lack of co-operation, and the stakes are high: "Bitcoins in digital portfolios escaping into offshore trusts can run into the billions, yes, billions with a 'b'," he says. "The sums are staggering!" The corruptible, corrupted and corrupting elements of society move fast. They are more creative than us: they seize the initiative with a dishonest, but nevertheless very real sense of entrepreneurship. They lurk where we least expect them. In a few minutes, billions can leave one country for another under a veil of secrecy. If our side takes weeks or months to mobilise in response, it will be like the Keystone Cops chasing after the bad guys, and never catching up. Co-operation needs to be fiscal and financial, investigative and punitive. It needs to be creative, innovative, brilliant and preventive.

Richard Findl, senior prosecutor at the Public Prosecutor's Office in Munich, used to be a tax inspector, so he's familiar with both sides. Among the big cases he has worked are the 2008 case involving the engineering group Siemens and the 2009 case involving truck manufacturer MAN. Both Munich-based companies were found guilty of bribery in order to win substantial contracts. Mr Findl looks back with humility over the progress Germany has made on corruption. In the 80s, bribes were commonplace and even tax deductible. Things started to change in the 90s with the signing of the OECD's Anti-Bribery Convention, an instrument which now has 43 signatories.

For progress on corruption to continue in Germany and elsewhere, Mr Findl says, five things are key: a robust legal framework so that barriers preventing tax inspectors from working with investigators and prosecutors can be lifted; regular meetings to help all parties share information and develop mutual understanding and trust; close co-operation in every investigation from beginning to end; and regular training to show tax inspectors exactly what evidence to look for.

Last but not least: go for it! Don't wait for the perfect case to get started. Criminals won't wait for us any more than will technological change.

Grace Perez-Navarro, Deputy Director of the OECD Centre for Tax Policy and Administration, calls for greater co-operation between tax authorities and criminal investigators and prosecutors. The OECD continues to present case studies that help member countries detect corruption, and is investigating new technologies to help in the fight such as blockchain.

As Jorge Luis Borges once said, "Don't talk unless you can improve the silence." National and international tax and law enforcement agencies need to talk to each other if they want to beat back the silent menace of corruption.

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