TAX FOR THE COMMON GOOD

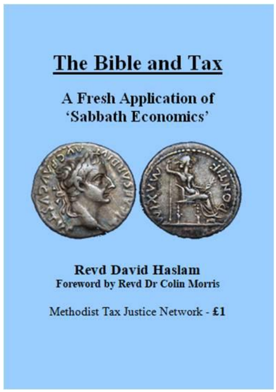
CHURCHES FOR TAX JUSTICE

AN INTRODUCTORY LEAFLET

Introduction - Christians and Tax

The growing inequality in today's world is one of our greatest challenges, alongside climate change. It is a product of the unjust global economic system, exacerbated by the 2007/8 'crash' created by a greedy banking system and poor regulators. In the interim, while the collective wealth of the poor and the middle has plateaued, the richest individuals and corporations have amassed enormous and largely unproductive wealth.

This must be anathema to Christians, while so many still live on a dollar a day in poorer countries, and in wealthy ones like the UK an increasing section of society survives by using food banks while sinking deeper into debt. A vital weapon to tackle this is tax. Tax is familiar to all people of faith. It emerges in the Hebrew Scriptures and in New Testament times frequently appears. Scholars like Ched Myers and John Crossan have worked on both the text and the economy which lies behind it, and show the very dangerous context in which Jesus was operating. There was a triple tax burden on the poor, paying to Rome, to Herod and the Temple. It is this last which so infuriates Jesus that in that a crucial event in his ministry he strides into the Temple area and upends the tables of money changers and dove-sellers. Both creamed off poor people's money to maintain the Temple elite. It was through this challenge to the rich and powerful that Jesus' death became inevitable.



The booklet *The Bible and Tax* (right) addresses more of the Biblical material on tax and the kind of economy envisaged by the Prophets, and Jesus' teaching about the Kingdom of God. Liberation theologians have offered a fundamental critique of modern capitalism and the inequality it creates. The World Council of Churches and the Pope have had strong words to say. This is an ecumenical mission imperative. Working for a just and equitable tax system is the main if not the only route back to a relatively fair and liveable human community. Church Action on TaxJustice aims to contribute to that process.

Revd David Haslam, Chair, Methodist Tax Justice Network, July 2017

What is Church Action for TaxJustice?

Church Action for TaxJustice (CAT) is an ecumenical, collaborative campaign platform managed and supported by Christians united by the belief that they, as individuals and as churches, have a prerogative to challenge unjust systems which perpetuate and increase inequality - prominent among which is the global tax system.

The Tax Justice Network (TJN) estimates that up to $36 trillion may be held in offshore tax havens, where relaxed laws and secretive banking regulations allow the super-wealthy and transnational corporations to avoid paying tax in the countries where they conduct real economic activity - developed and developing alike.

However, tax can, and should, be a tool for the common good. Through the implementation of key changes to UK and international law, a progressive tax system can redress the imbalance and bring about greater equality at both a national and international level. Church Action for TaxJustice aims to:

a) Promote an awareness of the crucial issue of Tax Justice in the context of the idea of a 'race to the top', a fair tax system which highlights the fundamental relationship between taxation and public services, in the national and wider context;
b) Raise awareness throughout the Churches and faith communities of the urgent need for Tax Justice at a national and international level;
c) Encourage Christian and all religious bodies to promote Tax Justice in their education, mission and financial policies and practices;
d) Support initiatives and campaigns by TJN, TJ-UK, Tax Justice Europe, the Global Alliance for Tax Justice (GATJ), and – as appropriate - faith agencies such as Christian Aid, Church Action on Poverty and Taxpayers Against Poverty.

Corporation Tax

In the UK, the current rate (2017) of corporation tax is 19%. This is already the lowest in the G20. However, the Treasury has announced that it is due to go even further down, to 17%, by 2020. This is in spite of the fact that a PricewaterhouseCoopers survey in 2016 showed that the majority of UK business leaders were opposed to the reduction. This is a symptom of what is known as 'the race to the bottom' - the idea that the only way to attract business and be competitive in a global market is to keep lowering your tax rates and weakening anti-avoidance legislation.

However, low headline rates are just one small part of a complex and deeply flawed international corporate tax system which perpetuates inequality and encourages rampant tax avoidance and evasion. At the heart of the issue is the presence of tax havens - or to use the technical term, 'secrecy jurisdictions'. A significant number of these jurisdictions are UK Overseas Territories or Crown Dependencies, such as the Cayman Islands, Channel Islands, British Virgin Islands or Bermuda. The definition of a tax haven is a fairly broad one, but they all share two key features.

Grand Cayman

Firstly, they have relaxed tax legislation or easily exploitable loopholes, which allow corporations to avoid paying tax on certain assets or in specific circumstances. Such legislation can range from the blatant, such as the Cayman Island's 0% income and corporate tax rates, to specific exemptions, such as The Netherlands' withholding-tax exemption on intellectual property royalties. Many tax havens, such as Luxembourg, operate 'participation exemption laws', making overseas-derived profits exempt from taxation. The tax haven can then appear to have a sensible or even high headline corporate tax rate, whilst giving transnational corporations the ability to funnel profits from regional or global operations into low-tax holding companies.

Secondly, tax havens often have high levels of banking secrecy (hence 'secrecy jurisdiction'), and it is often incredibly easy to register a shell company or trust fund through law firms or financial services companies which specialise in setting up inscrutable structures. By going through such 'middle-men', the true owner of these shell companies and trusts, and the assets they control, becomes impossible to track down. Transnational corporations use a variety of complex schemes to reroute their profits into tax havens. The documentation for such companies is often minimal, and even where it does exist, it is inaccessible to public scrutiny.

Developing countries, particularly those who are rich in raw materials such as metals and oil, are particularly vulnerable to having their tax base eroded by transnational corporations, which can artificially create losses in these countries and shift the profits to tax havens like Mauritius and Switzerland. Christian Aid estimate that developing countries lose $160bn a year to tax dodging. If these taxes were paid in the countries where real economic activity took place, they would be able to invest in crucial public services and alleviate poverty. In recent years, more and more developing countries have also been pressured into offering hugely damaging corporate tax incentives to encourage investment - Kenya loses $1.1bn every year to such incentives, almost double their national health budget (Oxfam 2016).

The final part of the tax avoidance puzzle is 'profit-shifting' - the means by which untaxed profits are moved offshore. When corporations carry out internal transactions, they must abide by 'transfer-pricing' regulations, which dictate whether such transactions are a fair reflection of the asset's market value. However, these rules can easily be manipulated, so that the country producing the asset is exploited and huge profits are made elsewhere - a procedure known as 'transfer-mispricing'. Transnational corporations frequently buy raw materials from their own subsidiaries in developing countries for *under* the market value through a tax-haven based holding company, then sell them on for *over* the market value to other subsidiaries, shifting profits to the tax haven. Such operations are illegal, but are almost impossible to prosecute under current rules. To complicate things further, the bilateral 'double-taxation treaties' currently used to avoid the same profits being taxed twice in different countries are frequently favourable to tax havens, while developing countries lose out.

The rules on international taxation are currently set by the Organisation for Economic Cooperation and Development (OECD), a group of 35 wealthy countries (see map to the right). This Paris-based body wrote both the 'transfer-pricing' regulations and the model 'double-taxation treaty' which forms the basis of all such agreements. They recently spearheaded an initiative to improve the global tax system, known as the BEPS (Base Erosion and Profit Shifting) Action Plan. This process made some headway towards implementing the crucial changes needed to fix the international corporate tax system, but fell painfully short. Developing countries were barely included, the timeframe for the development and implementation of changes was not long enough, and many of the conclusions, particularly the Common Reporting Standard currently being implemented by the EU, were watered down by business lobbyists.

All of the above problems are primarily a result of the current international tax system being outdated and not fit for purpose. However, a few legislative changes in the UK and worldwide could make a huge difference. Progressive corporate tax policies would encourage companies to pay their taxes where they are most active, according to their turnover, assets and workforce. These policies include:

- **Public Country-by-country Reporting** of financial information as a worldwide standard, making it possible to see where economic activity occurs and whether tax has been paid accordingly.
- **Public Registers of Beneficial Ownership**, including for the UK's Overseas Territories and Crown Dependencies, to reveal the ultimate owners of shady shell companies and make tax havens more transparent.
- **Global tax rules set by the UN's Tax Committee** - currently under-funded and under-powered, the UN Committee would give developing countries a greater say in how future tax legislation is planned and implemented.
- **Abandon plans to lower the UK's corporate tax rate**, encouraging investment in public services and not a race to the bottom.

Wealth Tax

The levels of inequality between the very richest and the very poorest in the UK are staggering. While the top fifth of the UK's earners have 40% of the income and 60% of the wealth, the bottom fifth have just 8% of the income and 1% of the wealth (Equality Trust 2016). When one considers the top 1%, or even the top 0.1%, the statistics are even more unbelievable. According to Credit Suisse (2016), the UK's top 1% own 24% of the country's wealth, while the top 0.1% have an average income of just under £920,000 a year (World Top Incomes Database 2012) - 95 times the net income (including benefits) of the poorest 10%.

When such a vast proportion of the country's wealth is in the hands of such a small proportion of High Net-Worth Individuals (HNWIs), many of whom may not be paying any income tax at all due to their non-domiciled status, it is small wonder that there have been calls for something to be done about the vast amounts of untaxed wealth that the 1% are sitting on.

French economist Thomas Piketty (left) proposed, in his landmark 2014 book *Capital in the 21st Century*, a global system of progressive wealth taxation of up to 2% for the very wealthiest. This tax would be levied against the total value of all personal assets, including all bank accounts, assets in pension plans and insurance, real estate, corporate stocks, financial securities and trusts. According to Piketty, such a system, in conjunction with much higher income tax rates for high earners, is the only way to redistribute the wealth concentrated at the top, which has been brought about by the rate of return on capital being greater than economic growth.

CAT advocates **a wealth tax on portfolios of assets which generate 'unearned income', such as let property and financial investments, with a combined value of over £1 million**. The rate of **Capital Gains Tax should also match that of Income Tax**, so that wealth gained from the sale of valuable assets is treated the same as other forms of income, and the **annual tax-free allowance (currently £11,300) should be lowered**.

Land Value Tax

There is a lot of British land in private hands which either remains undeveloped or is simply used to generate 'unearned' income in the form of rent. Council Tax is one of the most regressive taxes currently in place in the UK - the amount paid by those with the most valuable properties is capped, while those with the lowest-value properties pay a much larger proportion of the value of their property in Council Tax. Similarly, Business Rates are charged according to the value of the buildings themselves, not the land they are built on.

One way of addressing this imbalance while still properly funding Local Councils would be to **replace the Council Tax and Business Rates with a Land Value Tax**, which would be payable by the *owner*, and not the residential or commercial renter of the property. This tax would be **a flat percentage of the value of the land** (for residential properties, this is often reflected by the value of the house). This would mean that those who have invested wealth in high-value property markets such as London and the South East would pay a commensurately higher amount, and ordinary homeowners in less fashionable areas would pay a much smaller amount.

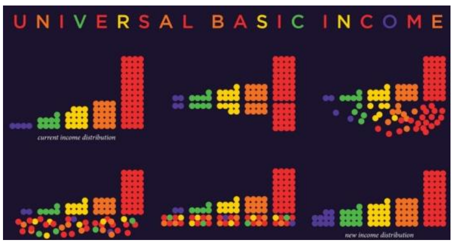
Another advantage of Land Value Tax is that land is an immobile asset - it cannot be taken offshore, hidden in tax havens or otherwise removed from the eye of the tax inspector. If implemented alongside a **public register of beneficial ownership** (see Corporation Tax), it would be impossible for wealthy individuals with large property portfolios to escape paying the Land Value Tax by registering the property as being owned by a secret offshore shell company or trust fund.

A Land Value Tax would also encourage the productive use of land - this would be especially good for businesses and for urban development and regeneration (and thus for the construction industry). The Institute for Fiscal Studies has long advocated the replacement of Business Rates with a Land Value Tax for this very reason. Finally, a Land Value Tax would mean that when improvements to public services and infrastructure drive up property values, this would benefit all property owners and the wider community - not just unscrupulous landlords.

Income Tax

Since 1974, the top rate of Income Tax has dropped from 83% to 45%. There was briefly, under Gordon Brown's Labour Government, a 50% top rate of tax, but this was removed by the Coalition Government in 2013. The basic rate of income tax has also dropped, from 35% in 1976 to 20%, a rate which has been in place since 2007. Income tax is one of the UK's more progressive tax systems, but the revenues it used to bring in have since been 'replaced' by regressive taxes such as National Insurance contributions and indirect taxes such as VAT. The result, according to The Equality Trust (2017), is that the poorest 10% of households lose 42% of their income to tax, while the richest 10% lose just 34.4%.

At the very least, CAT advocates the **reintroduction of the 50% top rate of income tax**. However, the issue goes much deeper than this - a sizeable proportion of people in the UK who are in work still don't earn enough to prevent poverty - a 2017 study by Cardiff University showed that 60% of British people in poverty lived in a household where someone was in work. The rollout of the new Universal Credit system, which is steadily replacing other benefits such as Housing benefit, child tax credits and income support, is being rushed, and delayed payments mean claimants are failing to pay rent. The London Borough council of Southwark directly attributing an extra £1.3m in rent arrears to the new system, while Citizen's Advice warn that it is a 'disaster waiting to happen'.



Therefore, CAT backs urgent research into **a Universal Basic Income** - a sum paid by the state to every qualifying UK citizen, replacing all benefits and the state pension and not subject to taxation. The amount would be **sufficient to bring every recipient out of poverty (defined as 60% of the UK median wage)**. This will then mean **a more progressive Income Tax regime, with a higher top rate and a much reduced personal tax allowance**, can be levied on all income earned beyond that paid by the state. This would simplify the tax, pension and benefit systems, drastically reduce the current levels of UK poverty and the use of food banks, and reduce benefit fraud.

Financial Transaction Tax

The idea of a Financial Transaction Tax (FTT) is not a new one - in fact, the UK has had a form of FTT in place since 1694, when Stamp Duty was introduced under William III and Mary II. Originally a tax on all written documents on vellum, parchment and paper, it is now limited to a 0.5% charge on all shares purchased over the value of £1000 (either via a physical stock transfer form or electronically), and a Stamp Duty Land Tax on the purchase of residential property over £125,000 in value or non-residential land and property of over £150,000 in value. The rate of the latter is progressive, with rates of between 2% and 12% payable on portions of the property's value in stages. The UK is one of the best known examples of a major financial centre that has implemented a form of FTT, and yet London remains one of the world's biggest stock markets.

However, the purchase of shares and property are only two of a wide range of financial transactions which take place. The financial sector has seen a huge increase in high-risk speculation and high-frequency trading in recent years, and as a result has become dangerously large ('too big to fail') and destabilising for the global economy - as demonstrated by the 2008 financial crisis. The UK taxpayer props up 'too big to fail' banks to the tune of £100bn a year, according to the Bank of England (Noss & Sowerbutts 2012/Financial Stability Report 2010), but these institutions are already recording record profits and paying massive bonuses once again. The Institute for Public Policy Research estimates that the financial sector can afford to pay another £20bn in tax, and by introducing a new range of micro-taxes on all high frequency transactions, HMRC could generate billions in extra revenue. Furthermore, even a tiny tax of 0.05% would be enough to reduce the profitability of high-risk transactions, and lessen the destabilising effects of the oversized financial markets, making macro-economic sense.

CAT supports the FTT policies called for by the Robin Hood Tax campaign - a **0.05% tax on all high-frequency financial transactions, including stocks, bonds, foreign currency and derivatives in the UK**, and **an end to the delay in introducing the Europe-wide FTT** first proposed by the EU in 2012.

From the Methodist Tax Justice Network to CAT

The Methodist Tax Justice Network (MTJN) was set up in 2012 to build awareness in the Methodist Church on the issues around Tax Justice as a key means of addressing massive and growing global inequality. It aimed to encourage campaigning on issues (as identified by TJN, Christian Aid and other appropriate bodies) including Transparency, Tax and Public Services, a Wealth Tax, Country-By-Country Reporting, Information Exchange, Beneficial Ownership and the other major topics identified by the leading organisations in the field. MTJN is now seeking to broaden the scope of its campaigns and operations, and play a greater role in shaping an ecumenical vision of a just society based on Kingdom values and the economics propounded in the Bible.

Initially CAT will operate as an enhancement of the MTJN, while building an ecumenical network which can develop its own appropriate structure. Any group or organisation which supports its aims will be welcome to nominate a representative to the Management Committee. The Committee, which meets bimonthly, will continue to promote the issue in the Methodist Church and beyond through 2017/18, and explore the expansion of its work. It is hoped that CAT will be formally launched as a new organisation in the Spring of 2018 - MTJN may or may not then continue. In the meantime MTJN will provide an organisational structure and hold any finances which are available, operating under the umbrella of the Birmingham Methodist District and abiding by its policies. The Committee already has Quaker and Anglican members and it is hoped others willing to work on this issue in their denominations or in ecumenical bodies will step forward.

As and when CAT is formally launched it will decide whether or not to seek endorsement from official church bodies, or operate more as a ‘Christian people’s movement’ seeking individual membership, good relations with appropriate church bodies and means of relating to the denominations and their various institutions as appropriate.

Contact Us!

The transition from MTJN to CAT has only just begun, and we invite you to be involved in this exciting development! If you are interested in being a part of this vision, please get in touch with us through any of the means below.

Contact MTJN:
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By Post: 59 Burford Road, Evesham, WR11 3AG

Visit our website:
www.mtjn.org.uk
Find us on Facebook:
www.facebook.com/MethodistTaxJusticeNetwork
Follow us on Twitter:
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Our Patrons:
Revd Alison Tomlin, Revd Dr Inderjit Bhogal, Baroness Kathleen Richardson, Ruby Beech (all former Presidents or Vice-Presidents of Conference), Paul Brannen MEP (former Head of Campaigns, Christian Aid), Bishop Ivan Abrahams (World Methodist Council).

Further useful websites:
Tax Justice Network - www.taxjustice.net
TaxJustice UK - www.taxjustice.uk
Global Alliance for Tax Justice - www.globaltaxjustice.org
Tax Research UK - www.taxresearch.org.uk/Blog
Taxpayers Against Poverty - taxpayersagainstpoverty.org.uk
Robin Hood Tax - www.robinhoodtax.org.uk
Christian Aid - www.christianaid.org.uk
ActionAid - www.actionaid.org.uk