Welcome to the November 2019
Church Action for Tax Justice (CATJ) Newsletter

In this month's newsletter:

General Election 2019

Ahead of the 12th December General Election, CATJ has three publications to draw your attention to:

The first of these is our response to the manifestos of the three main parties. This sets out five key areas where CATJ has been campaigning for some time and which to varying extents have been addressed in the manifestos of the parties. These include personal taxes, council tax, corporation tax, green taxes and closure of tax loopholes. Indeed, it has been interesting to note how many of the issues that, along with others, CATJ highlighted in its own manifesto earlier this year are now being tackled in this election. TJUK have rightly described these as campaigns wins.

The second document is our briefing for you if you are considering attending a hustings event, or indeed will be engaging with any potential candidates. It suggests that there are three key questions that we need to ask of any tax policy. They are:
1. What is the impact on inequality?
2. Does the policy meet the needs of the most vulnerable?
3. Is tax a good thing and do their policies serve the common good?

We hope you find our discussion of those questions helpful as you consider your own voting position.

Finally, Tax Justice UK (TJUK) and TaxWatch have published A Manifesto for Tax Equality, which has been endorsed by Church Action for Tax Justice, and to which CATJ contributed. This sets out 33 policy proposals for tax justice and is well worth a read.

International Tax Justice

Over the last month, there have been a series of significant events in the international tax justice arena. As CATJ has previously reported, up to $400bn a year is lost from global south countries through a range of tax abuse mechanisms. That is three times the amount those countries receive in aid.

The OECD is currently spearheading a process of reform to international taxation under the title of BEPS (Base Erosion and Profit Shifting). It refers to the practice of many multinational companies who shift their profits from the countries in which they have actually done business to tax havens where they pay little or no tax. With the growth in the digital economy, many OECD countries (ie. wealthier nations) are now getting fed up losing tax revenue to the likes of Google, Amazon, Facebook and Apple (so-called GAFA).

In response to all this a number of different things are happening simultaneously. Firstly, some countries are launching their own digital services taxes. We have already seen this in France and the UK is planning to introduce one in April 2020. Some of the parties have signalled they intend to extend its scope.

Secondly, the OECD has launched its own public consultation on the two pillars of its proposal to address this issue. In summary, pillar one proposes a 'unified approach' to the taxation of multinational corporations. Currently, multinationals are taxed by using the arm's length principle in which different parts of the multinational are treated, for tax purposes, as if they are independent entities. The 'Unified Approach' suggests a variation to this in which tax liabilities begin with an assessment of the global consolidated profits of the whole multinational including its subsidiaries.

However, there are major problems with the technical details of the OECD proposal. One of these is that the 'Unified Approach' distinguishes between routine profits and residual profits for each multinational. So-called 'routine' profits would continue to be taxed in the normal way and this means that there is huge scope for multinationals to argue that most (maybe all?) of their profit is 'routine', and therefore they will see no effective change to their tax liabilities. Tax dodging will continue but just in a different way.

In response, Church Action for Tax Justice, has been working with Tax Justice Europe and others to argue for a different approach in which the routine / residual distinction no longer applies, and in which taxing rights are based not just on sales but also, for instance, on employment within any particular country. The reason for this is that the technical paper we reported on last month by Cobham et al has shown the OECD proposal would generate little benefit for poorer countries in particular. They wrote "reallocation of taxing rights towards “market jurisdictions”, as it is currently understood, is likely to be of little benefit to non-OECD countries. Indeed, the proposal is likely to reduce revenues for a range of lower-income countries.” Church Action for Tax Justice also wrote its own response to the BEPS Pillar One consultation, and currently discussion of these responses is ongoing.

The OECD have also more recently launched their consultation on Pillar Two of their proposals. Essentially, this was meant to be a proposal about a minimum effective global corporate tax rate - possibly set at something approximating 24%. If all profits were taxed in the way described by Pillar One and if the minimum corporate tax rate globally was around 24% then the global scourge of tax havens would be severely diminished. However, we were very disappointed that when the consultation document was published there was no proposed minimum tax rate which suggests that behind the scenes intense lobbying by some countries has effectively stalled this process. Without knowing what the effective minimum tax rate is, it is hard to see how any of the proposals in Pillar One would have any meaningful effect. In addition, more recent reports have suggested the agreed rate could be as low as 12.5% which would effectively make the whole world a tax haven!

All of this discussion is compounded by the third issue that arises in regard to review of international taxation - namely whether the OECD is the right location for these discussions anyway. The OECD describes their approach as 'inclusive' as despite the fact that the OECD itself is made up of wealthier nations there is some mechanism by which the rest of the countries in the world can participate. However, tax justice campaigners have long suspected that the so-called 'inclusive framework' is not that inclusive and it is noteworthy that a number of non-OECD countries, led by India, are now suggesting that the whole conversation should be moved to the United Nations where they have more effective representation and where they feel that their voice will be heard to a greater extent. Indeed, the G77, a group of 130 poorer countries, has introduced a draft resolution to the United Nations calling for the UN expert committee on tax to be upgraded to an intergovernmental UN tax body, and at least one party manifesto has supported this move.

This last point raises a fundamental issue of tax policy at the international level. International tax policy is horrendously complicated and lower income countries simply do not have the resources to negotiate on a level playing field with the armies of tax experts provided by wealthier nations. Yet, current international tax arrangements favour those wealthier nations to the tune of $400bn per year. There is then a moral responsibility for the new arrangements to shift that balance back in the direction of those countries that have a moral right to those tax revenues and who need the money more. Arguably, in light of the cost of climate change which has been caused by the West but whose effects are most felt by the poorer parts of the world, this moral duty is even more significant.

IPPR Poll reveals growing support for major changes to UK economy

The Institute for Public Policy Research (IPPR) has released new polling ahead of the general election that suggests the British public are supportive of 'paradigm shifts' in the way the UK economy is managed. Key points from their survey include:

- Approximately 30% believe the British economy should be changed radically, and another 30% believe it should be changed moderately. Less than 5% thought there should be no change

- Just under 40% believe the British economy works in the interest of those with high incomes, with approximately 5% thinking it works in the interests of those with average incomes

- 55% think inequality has widened too much

- 64% are supportive of greater investment in measures to tackle climate change such as renewable energy and insulating homes

- 61% are supportive of higher taxes for those earning more than £100,000 a year

- 57% think there should be greater regulation of of banks and financial companies

- Only 9% believe banks and financial companies act in the interest of the economy as a whole.

- 45 per cent support devolving more powers over investment and planning to the English regions and the devolved administrations, with only 9% opposed.

<u>10 Demands for Tax Justice in the Extractives Industry</u>

Much of the technology we use on a daily basis is dependant on cobalt. Cobalt is dug out of the ground in Africa and is a key ingredient in many of the batteries in our electronic goods. Yet the mining companies that dig this out and many other raw goods often find ways to avoid paying taxes in the countries where this material is being produced. In light of this, the [Global Alliance for Tax Justice]held a day of action on Tuesday November 19th in which they listed their 10 demands for tax justice in the extractives industry. These include:

1. Stop the plunder and exploitation of natural and human resources

2. Ensure a comprehensive and effective tax regime for extractive industries

3. Ensure that extractive taxes are just and progressive and fund public services for all

4. Scrap wasteful tax incentives for extractive industries

5. End the impunity of mining corporations and hold them to account for their practices

6. Ensure transparency and accountability of government officials overseeing extractive industries

7. Institute and enforce tighter social, financial and environmental regulations for extractive industries

8. Reject or cancel harmful provisions in tax treaties and agreements

9. Uphold the rights of communities affected by mining

10. Protect the rights of artisanal miners

Events:

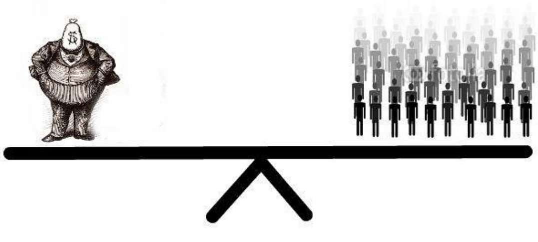
Over the next few months, CATJ's national coordinator, Dr Justin Thacker, will be speaking at the following events. It would be great to see you at them and if you need more details get in touch. If you would like Justin to speak at your church / event, then also get in touch.

- **Sunday 12th January 10.30am – Bearwood Bapist Church, Smethwick, West Midlands**
- **Thursday 6th February, 7.30pm – Worcester, venue tbc**
- **Saturday 23rd – Monday 25th May – Cliff College Festival, Cliff College, S32 3XG**
- **Saturday 13th June 9.30am – Moravian Church, London**
- **Sunday 14th June 9.00am and 10.45am – St John's Church, Chesterfield**

In brief:

- TaxWatch reveals that £324 million has been given in tax relief to video game manufacturers for dubious culturally British games
- Fight Inequality Alliance issues new report in which Tax Justice was the most frequently rated issue that the international survey respondents cited as an area in which they were campaigning
- Resolution Foundation issues new report exploring the shape of the UK tax system and analyses the main party proposals in light of this

And finally…



Our desire is not that others might be relieved while you are hard pressed, but that there might be equality. At the present time your plenty will supply what they need, so that in turn their plenty will supply what you need. The goal is equality,
2 Corinthians 8:13,14

The context of this passage is that the church in Jerusalem was struggling. This may have been ongoing fallout from a famine some years before, or simply because the church there was poor. Either way, they didn't have the resources to keep going. In this letter, Paul has drawn attention to the generous gift of the Macedonians and he is now encouraging the Corinthians to give likewise. However, his use of language is really interesting.

On the one hand, we might think of this gift as merely an act of charity. The Jerusalem church was poor, the Corinthians were potentially wealthier, and Paul is merely asking the Corinthians to give out of their excess to help their poorer brothers and sisters. However, Paul does not frame the gift in that way. If he had then the Corinthians would have effectively become the patrons of the Jerusalem church and that was a model of financial support that Paul despised. He rejects it for himself for instance in 1 Corinthians (1 Corinthians 9: 1-18, 2 Corinthians 11:5-10).

Instead, Paul's emphasis is on justice not charity. As he repeatedly notes in this passage, 'the goal is equality'. In other words, Paul is saying here that the fact that we share resources - my plenty supplying what you need; and your plenty supplying what I need - is not a matter of charitable giving; it's a matter of justice. It is how things are meant to be in the Kingdom of God. Of course, this same pattern is also evident in the way the early disciples shared all things in Acts 2 and Acts 4, and how debts were cancelled in the Jubilee principle of Leviticus 25.

As I say in the blog about [The Three Key Questions about Tax](), none of this means that we can achieve absolute equality today. But the question that must be asked is this: in which direction are we heading? Is it the direction of more equality or less? Paul would certainly encourage us to seek more, and our tax systems if better engineered can do just that.

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