Tax Justice Network, Brussels, December 2019

When the Tax Justice Network (TJN) founding members organised in 2003 to tackle tax injustice into a network of researchers, professionals, activists, academics, and others, probably only a very few people had a clear grasp of the complexity and opacity of tax dodging and financial secrecy and its impact on poverty, equality and human rights. Today many civils society organisations, think tanks, professionals and researchers have embraced the tax justice agenda.

The report on *Tax Justice and Poverty* sets out a broad, deep analysis of tax injustices and their impact on measures of poverty. Several options emerge for further exploration and research from the comparative study ranging from the legal and administrative, to cross border tax abuse, the vulnerability of states and the risks they experience created the unfair distribution of taxing rights that weights power with wealthy elites and multinational companies. These issues might broadly be grouped into two pressing concerns. First, examining how to address a 'broken' tax system; a system designed over a hundred years ago and before the digital age, and one operating in a 'light' touch regulatory environment. Second, is the broad acknowledgement that income and wealth, taxed at increasingly lower rates is leaving the poorest in society, of whom over fifty percent are women[i], are shouldering the burden of indirect taxes which disproportionately impact on their daily lives. But also, that wealth is taxed quite differently, and minimally, compared to income.

One important question emerging from the report on *Tax Justice and Poverty* is where can an additional intervention make most impact? Current corporate income tax policy reforms at the OECD examining the distribution of taxing rights and the implications of a minimum corporate tax rate are engaging expertise from the corporate world, professional services and civil society. The Independent Commission for the Reform of International Corporate Taxation (ICRICT), The BEPS Monitoring Group, TJN-Africa, the Tax Justice Network and many other international and regional institutions are monitoring and critiquing the policy reforms.

Taxing wealth and unearned income, that is income that is generated from capital gains, dividends, stocks and shares, and other financial assets such as real estate and land, offers a means of broadening a country's tax base. Research institutions and researchers alike are taking an increased interest in wealth and the taxation of it as well as examining the impact on the growing gap between the rich and the poor. Important opportunities exist to accelerate an agenda on taxing wealth, and to contribute alongside the established work on financial transparency.

TJN's core policy platform comprises the ABC of tax transparency: automatic exchange of financial information, beneficial ownership transparency for companies, trusts and foundations; and public country-by-country reporting by multinational companies. All three, once written off as utopian, are widely accepted as fixed points on the global policy agenda, setting new international standards. This policy triad, however, continues to be undermined by bi-lateralism, and by wealthy nations setting impossible requirements of capacity for neighbouring low income countries.

A powerful narrative underpinning the transparency agenda is described in the scale of the problem. The impact of corporate profit shifting has been measured as $200 billion lost annually from lower income countries alone while worldwide, TJN's conservatively estimates MNE's global profit shifting is in the region of $500 Billion.[ii] Wealth is another story altogether. Private wealth is professionally managed and guarded by lawyers, accountants, bankers, and wealth managers. Eye-watering in scale, is the estimate of assets hidden in tax havens. In 2012 the estimates ranged between $9 -$36 trillion.[iii]

A remarkable upper range is believable when noting official estimates provided by the British Crown Dependency of Jersey. Estimates of wealth held in Trusts in Jersey amount one trillion £GBP– 'equivalent to the annual GDP of Spain'.[iv] Multiply this by the one hundred and eleven other secrecy jurisdictions ranked for their secrecy and global scale weight in the Financial Secrecy Index 2018 and the enormity of the problem becomes apparent. [v]

More can be done to stop the financial 'alchemy' that transforms income (from shares, dividends) into 'wealth' so that it is taxed less, not at all, or 'lost' to regulatory eyes altogether. New research, advocacy and general literacy –on taxing wealth and exposing the loop holes and agents which facilitate those loop holes is a herculean task as the Panama and Paradise papers showed. But one with which is worth persisting.

One approach to taxing wealth is to explore how to effectively tax the beneficial owners of property. The attraction of focusing on property, especially of land and the bricks build upon it, is that these assets cannot be moved offshore.[vi] There is of course enough subterfuge to make the real beneficiaries of real property difficult to find and therefore to tax.[vii] The use of trusts and the incorporation of assets, makes this far from a straightforward exercise. Institutional and intergovernmental recognition of the problem needs to be universally in place. Political and institutional willingness to act – to legislate and to regulate - is only partial. More can be done to research, to advocate and exert pressure towards a fully progressive and multilateral transparency regime.

Finally, some thoughts for areas of advocacy and steps which require both intergovernmental policy and national level implementation and regulation:

- Automatic Information Exchange – the 'A' of ABC: Public registries allow tax administrations to achieve needed transparency to trace wealth.
- The Fifth Anti-money laundering directive: The fifth AML Directive enhances transparency by broadening access to information on beneficial ownership by requiring public access to centralised registers of beneficial owners of companies, foundations, and other legal entities and arrangements. While currently beneficial ownership information cannot yet be accessed online in all countries, the Directive has passed a law that implements the online access to beneficial ownership registry. This is scheduled to enter into force on [1 January 2020]. Noting however this is not retrospective. To ensure the effectiveness of the 5th AML Directive and to operate as intended in tracing assets including property, a centralised supervisory authority is needed AND a centralised authority to undertake asset recovery
- FAFT standards: Standards are due for revision in 2022. It is important that this is used as a pressure point. The EU has been pioneering taking progressive steps in transparency but NOW the rest of the world needs to follow to ensure real impact in taxing property.
- Golden Visas –residency 'for sale': This is a significant loop hole in steps to successfully taxing wealth, including property. It is an effective way to 'trick' the regulatory standards. So-called 'Golden visas' enable non-residents to become 'resident' and to open bank accounts in their jurisdictions. Ireland, Cyprus, Malta are usually named as culprits, but the problem is much more wide spread.

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[i] GATJ, 2017, *The Bogota Declaration on Tax Justice for Women's Rights,* https://www.globaltaxjustice.org/sites/default/files/EN_Bogota-Declaration-Tax-Justice-for-Womens-Rights.pdf,

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[iii] J.S. Henry, 2012, *The Price of Offshore Revisited*, Tax Justice Network

[iv] N. Shaxson, 2019, *The Finance Curse: How Global Finance is Making Us All Poorer*, Vintage, London

[v] Tax Justice Network, 2018, *Financial Secrecy Index,* https://financialsecrecyindex.com/en/introduction/fsi-2018-results

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