Tax Justice & Poverty

Understanding the wealth gap and governmental dependence on external finance

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I. Preface by the Heads of Institution

In 2008, the General Congregation of the Society of Jesus ("Jesuits"), the highest decision making organ of this largest religious order of the Roman Catholic Church, passed a Decree entitled "Challenges to our Mission Today". In it the delegates called, among others, for an improved international co-operation on research and advocacy. Jesuit institutions should 'promote studies and practices focusing on the causes of poverty' and pay attention 'that research results and advocacy have effective practical benefits for society … Advocacy and research should serve the poor' (Nr. 35). An area for 'special and privileged attention' should be the engagement for and with Africa (Nr. 39).

The Jesuitenmission in Germany, the Jesuit Centre for Theological Reflection in Zambia and the Jesuit Hakimani Centre in Kenya wanted to take up that challenge and initiated in 2010 an exploration into areas of mutual interest and concern. By 2012 it emerged that this could be a joint project into the complex relationships between "Tax Justice & Poverty." This issue is even more challenging since so far a focus is on African mismanagement and misspending of funds due to bad governance, corruption and the like. This, however, is well researched and documented, hence we did not feel the necessity to give it too much attention ourselves and rather, to focus on the taxation and collection capacities of the three tax jurisdictions:

On part of the African partners it was obvious that tax authorities in Kenya and Zambia were not adequately equipped to collect taxes needed for financing public tasks, including the support towards poverty reduction policies. One initial hypothesis was that, if African states were able to tax private and corporate actors adequately, they would no longer be dependent on Official Developmental Aid or bilateral and multilateral loans contracted from sovereign states and international capital markets. Through an efficient, effective and modernized taxation system which is broad-based requisite resources for national development in the areas of major improvements in public infrastructure and improved financing and targeting of poverty reduction strategies accelerated development may be attained.

On the part of the German partner it was obvious that taxation policies over the past decades endangered the implementation of an important taxation principle, namely taxation in accordance to the ability to pay. Too many tax cuts and privileges were given to private and corporate wealth holders. Parallel to this policy public debt rose to over 2 trillion Euros and budgets financing infrastructure and the support of the poor were strained. One initial hypothesis, was that: If this taxation principle is restored, public debt could be repaid and also Germany would be able to meet the cost of major improvements in infrastructure and empower poor people to address structural poverty by making poor communities and households resilient to the cost of living.

Accordingly, on account of the various factors and tangible taxation challenges as stated above there seemed to be adequate evidence of possible joint areas of co-operation ,research and advocacy . Work on the research commenced in summer 2013 and lasted until summer 2016.

In the course of the research, initial research hypotheses were modified or discarded altogether, while other focal points of joint interest emerged and were incorporated into our proceeding, as will be detailed later in chapter 6).

Accordingly, as we hand over the results of our labour to the interested reader, we want to do it with two observations and hopes:

First of all, it is interesting and striking that there are fundamental similarities in key taxation problems across the three countries. As much as the three countries are geographically and economically different in the case of Germany/Bavaria, Kenya and Zambia, the three countries and tax administrations registered challenges in the lack of transparency regarding holders of private and corporate wealth. The overwhelming comparative tax knowledge of highly paid specialists, namely tax lawyers, tax consultants and tax auditors engaged by and working for private and corporate wealth holders, which is compounded by chronic understaffing and lack of requisite equipment militates against efficient and effective collection of tax revenues. It is also obvious, that tax administrations are severely constrained in their jurisdiction of operations on account of national sovereignty of other states and respect for international law and national boundaries. while international capital migrates easily between national states using many options which financial globalization and international instruments accord through sophisticated IT networks yet it is not so with Tax Administrations as they lack the over-arching arm to curb tax planning of Corporations beyond their tax jurisdiction.

In our view, this Report serves to the first step, towards informing and alerting the readership about the need for international co-operation in the field of tax administration and tax justice. African states cannot resolve the challenges of tax evasion and planning on their own and with their own capacities only. This endeavor is highly dependent on the ongoing initiatives regarding transparency, as being undertaken by the OECDs Base Erosion and Profit Shifting and Automatic Exchange of Information Programs and/or related international initiatives. Such an undertaking requires material, information and human resource linkages as well as capacity building of African tax administrations as a matter of urgency. Further, we also point out that Tax Jurisdictions must be autonomous enough from political and business interference if they are to have leverage over taxation policy implementation.

Therefore our hope is that this report will contribute to the dynamic gathering speed already in recent years, e.g. at the Addis Ababa Summit on Financing of Development, a link was made between the development of poor countries to their ability to collect taxes and enforce existing legislation. We will be pleased should our Study Report contribute towards the maximization of tax revenues collected through fair and just mechanism for purposes of development and poverty reduction across the face of our world, or, in the words of Pope Francis, our Common Home.

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