

SUBMISSION NO.4



Uniting Church in Australia
SYNOD OF VICTORIA AND TASMANIA

Justice and International Mission Unit
130 Little Collins Street
Melbourne Victoria 3000
Telephone: (03) 9251 5271
Facsimile: (03) 9251 5241
jim@victas.uca.org.au

July 2007

The Secretary
Joint Standing Committee on Treaties
PO Box 6021
Parliament House
Canberra, ACT, 2600

Dear Secretary,

The Justice and International Mission Unit, Synod of Victoria and Tasmania, Uniting Church in Australia, welcomes this opportunity to make submission on the *Agreement between the Government of Australia and the Government of Antigua and Barbuda on the Exchange of Information with Respect to Taxes, Saint John's, Antigua 30 January 2007* and *Agreement between the Government of Australia and the Government of the Kingdom of the Netherlands in Respect of the Netherlands Antilles for the Exchange of Information with Respect to Taxes, Canberra, 1 March 2007*. The Justice and International Mission Unit supports binding treaty action being taken with regard to both agreements.

The Uniting Church in Australia has committed itself to seeking the eradication of poverty globally in its Statement to the National at the inaugural National Assembly of Uniting Church delegates in 1977. Fair taxation systems are an important element in eradicating poverty, ensuring that higher levels of tax are paid by those most able to afford and ensuring that governments have sufficient tax revenues to provide essential services to their people.

In 1997 the annual meeting of the delegates of the Uniting Church in Victoria passed a resolution committing the Synod to the position:

- (a) *To affirm the principle that the payment of taxes is a moral responsibility that goes with citizenship;*
- (b) *While acknowledging that taxation reform is a complex issue, to recommend to the Federal Government that the following guidelines need to undergird any reform of the Australian Taxation System:*
 - i. *That the taxation system be primarily progressive and just;*
 - ii. *That the taxation system encourage a responsible use of our resources and stewardship of the environment;*
 - iii. *That the taxation system be designed in such a way as to lessen the gap between the rich and the poor.*

Tax havens undermine fair tax systems. The Tax Justice Network estimated in March 2005 that there was US\$11,500 billion held by individuals in approximately 73 tax havens around

the world. The worldwide tax revenue lost as a result was estimated at US\$255 billion per year.¹ With so much tax revenue lost due to international evasion and avoidance by large companies and wealthy individuals, governments are forced to either reduce public spending and/or increase taxation on less mobile small companies or poorer individuals.²

The 1998 OECD report '*Harmful Tax Competition: an Emerging Global Issue*' notes that tax havens are a harmful form of tax competition as they 'poach' the tax base of other countries, and also encourage the race to the bottom by offering foreign capital a low or no-tax alternative.³

In the view of the Tax Justice Network "banking secrecy and trust services provided by global financial institutions operating offshore provide a secure cover for laundering the proceeds of political corruption, fraud, embezzlement, illicit arms trading and the global drug trade. The lack of transparency in international financial markets contributes to the spread of globalised crime, terrorism, bribery of under-paid officials by western businesses, and the plunder of resources by business and political elites. Corruption clearly threatens development, and it is tax havens that facilitate the money laundering of the proceeds of corruption and all types of illicit commercial transactions."⁴

Tax havens can create an illusion. A company might be registered in a tax haven territory, but almost no information about it needs to be recorded with the government of the tax haven. The names and addresses of directors and shareholders are almost never required to be on the public record and nominee names are allowed.⁵

To add to the illusion, many tax haven companies are owned by trusts and these trusts in turn are set up offshore. The trusts are often in a different territory from that in which the company they own is registered and the trustees of the trust (who will, almost certainly also be nominees) will typically be located in a third tax haven territory. Within the tax planning industry it is generally thought that involving three tax haven territories in such a structure will make it very difficult for outside authorities to investigate what is really happening, and who is benefiting from it. This can achieve the outcome that the tax haven activity appears to take place nowhere, which means it is accountable to no government, pays no tax to anyone and has no duty to report anything because it can deny it is anywhere.⁶ In the words of the Tax Justice Network: "In the secretive, parallel universe of tax havens, structures can be set up to carry out real functions in the real world but without any requirement for a transparent legal presence that confirms their existence or the nature of their activities. This creates the opportunity for all sorts of illicit activities by:

- allowing tax evasion to take place largely undetected;

¹ <http://www.taxjustice.net>

² Richard Murphy, John Christensen and Jenny Kimmis, 'Tax us if you can', Tax Justice Network, September 2005, p. 1.

³ Oxfam UK, 'Tax Havens: Releasing the Hidden Billions for Poverty Eradication', 2000
<http://www.attac.org/fra/toil/doc/oxfam2.htm>

⁴ Richard Murphy, John Christensen and Jenny Kimmis, 'Tax us if you can', Tax Justice Network, September 2005, p. 4.

⁵ Ibid., pp. 26-27.

⁶ Ibid., p. 27.

- facilitating capital flight; and
- allowing other crimes such as money laundering, drug trafficking, people trafficking and so on to take place largely undetected.”⁷

The OECD issued a report in 1998 on *Harmful Tax Competition*, which defined the factors to be used in identifying these harmful tax practices, many of which it associated with tax havens. The OECD approach has been to seek to eliminate harmful practices and it largely sought to do this by obtaining mutual undertakings to do so, conditional upon agreement between all the participating jurisdictions by 2005.⁸ The two Agreements being considered by JSCOT are consistent with the OECD approach in dealing with tax havens.

Given the negative impact of tax havens on the proper operation of progressive tax systems, the Justice and International Mission Unit welcomes the *Agreement between the Government of Australia and the Government of Antigua and Barbuda on the Exchange of Information with Respect to Taxes, Saint John's, Antigua 30 January 2007* and the *Agreement between the Government of Australia and the Government of the Kingdom of the Netherlands in Respect of the Netherlands Antilles for the Exchange of Information with Respect to Taxes, Canberra, 1 March 2007* and encourages the Australian Government to enter into similar Tax Information Exchange Arrangements with other jurisdictions that may be classed as tax havens.

Yours sincerely,

Dr Mark Zirnsak
Director
Justice and International Mission Unit
Phone: (03) 9251 5265

⁷ Ibid. , p. 27.

⁸ Ibid. , p. 39.