

Tax Justice and Ethical Investment

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| Status of Paper | Final |
| Action Required | Approval |
| Resolutions | 17/1. The Council receives the report 17/2. The Council encourages the Central Finance Board, the Joint Advisory Committee on the Ethics of Investment and the Connexional Team to continue highlighting issues of tax justice. 17/3. The Council commends the report to the Conference as a further reply to M30(2015). |
| Alternative Options to Consider, if Any | N/A |

Summary of Content

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| Subject and Aims | To report to the Council on the progress of work delivered by JACEI, JPIT and the CFB on the issue of tax justice and ethical investment. |
| Main Points | In response to the direction of the Conference, as set out in its reply to M30 (2015): <ul style="list-style-type: none"> • This report provides an account of the steps that JACEI has undertaken to approach the question of taxation and engagement with investments. Research has been undertaken on the ethical, theological and practical issues surrounding tax justice and a number of partner organisations with expertise and experience in the field have been consulted. • JACEI has approved the creation of a policy on tax justice and ethical investment during the coming year. • This policy will focus, in the main, on how a company manages its tax affairs and how transparent it is about its financial engineering and the tax it pays in different jurisdictions. |
| Background Context and Relevant Documents (with function) | Memorial 30 to the Methodist Conference, 2015. Memorial 32 to the Methodist Conference, 2012 <i>Of Equal Value: Poverty and Inequality in the UK</i> , report to the Methodist Conference 2011 http://www.methodist.org.uk/downloads/conf2011-pc-11-poverty-and-inequality-0812.doc |
| Consultations | Ecumenical partners are outlined in the text. |

Summary of impact

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| External (eg ecumenical) | Potential collaborative work as detailed in the text |
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Tax Justice and Ethical Investment

Executive Summary

In response to a Memorial to the Methodist Conference in 2015, the Joint Advisory Committee on the Ethics of Investment (JACEI) has undertaken work on ethical investment and tax justice, meeting with other denominations and organisations working in this field. As a result JACEI has agreed a draft position statement on tax justice, and consequently the Central Finance Board will be producing a policy statement later this year which will shape its ethical investment practice. The Methodist Church is a leader in ethical investment, and this report outlines in greater detail for the Methodist Council the work undertaken and the issues faced when trying to ensure that our church investments contribute to tax justice.

1.0 Introduction

- 1.1 In 2015 the Methodist Conference, in its reply to a memorial (M30) on tax justice, recognised *“that by taking measures to avoid paying tax which is owed companies and private individuals deprive countries of financial resources needed to meet their educational, health, social and other needs”*. The Methodist Conference directed *“the Methodist Council to ensure the Connexional Team continues to work with Joint Advisory Committee on the Ethics of Investment (JACEI), the Central Finance Board (CFB), the Joint Public Issues Team (JPIT) and the Methodist Tax Justice Network (MTJN) for at least the next three years, as resources allow, and direct[ed] the Methodist Council to review progress in this area of work in early 2018 and to report to the Conference of that year.”*
- 1.2 In taking this work forward the Joint Advisory Committee on the Ethics of Investment (JACEI) has worked with the Central Finance Board (CFB) and the Connexional Team through the Joint Public Issues Team (JPIT).¹ This report provides an account of the steps that JACEI has undertaken to approach the question of taxation and engagement with investments as required by the Memorial.

2.0 Definitions

- 2.1 It is clear from different groups who have been consulted that there are a variety of views as to the meaning of the terms “tax evasion” and “tax avoidance”. This paper uses the definitions set out below from the OECD glossary of terms.

Tax Evasion is “A term that is difficult to define but which is generally used to mean illegal arrangements where liability to tax is hidden or ignored, ie the taxpayer pays less tax than he is legally obligated to pay by hiding income or information from the tax authorities.”

Tax Avoidance is “A term that is difficult to define but which is generally used to describe the arrangement of a taxpayer’s affairs that is intended to reduce his tax liability and that although the

¹ The Central Finance Board of the Methodist Church (CFB) is the investment agency of the Methodist Church. It is the job of the CFB to manage the funds of the Methodist Church and obtain good returns on their investments whilst making sure that the investments are in line with the moral and ethical teaching of the Church. The Joint Advisory Committee on Ethical Investment (JACEI) advises the CFB of ethical considerations relating to investment, and reports to the Conference commenting on the performance of the CFB in managing the funds under its control according to an ethical stance which is in accordance with the aims of the Methodist Church. JACEI comprises 11 persons, the Chair, and ten other individuals, half of whom are appointed by the Methodist Council, and half appointed by the Central Finance Board. The Joint Public Issues Team works on behalf of the Connexional Team to support the work of JACEI and conducts research on the implication of economic policy (including in the area of taxation) on various groups. The Methodist Tax Justice Network (MTJN) has played an important part in bringing the question of tax justice to the forefront of the Methodist Church as well as providing a continued engagement with the theological issues surrounding tax.

arrangement could be strictly legal it is usually in contradiction with the intent of the law it purports to follow.” (Emphasis added)

- 2.2 Mechanisms such as Gift Aid or Patent Box, although they reduce tax liability are not considered avoidance when used appropriately, as the intention of the law is to reduce tax liability in order to encourage behaviours of which the Government approves.

3.0 Position of the Methodist Church on Taxation

- 3.1 The Methodist Church recognises, as detailed in the reports it has received at the Conference, that institutions and individuals have a responsibility to obey not just the letter but the spirit of the law on taxation. This responsibility applies with particular gravity to the Church itself, given its role in building a more just society.
- 3.2 The Methodist Church has received two reports that are particularly relevant to the question of taxation: *Ethics of Wealth Creation* (1990) and *Of Equal Value: Poverty and Inequality in the UK* (2011). In both the *Ethics of Wealth Creation* and *Of Equal Value* the importance of tax in creating a just society is highlighted. Tax is used for state investment in key services, as well as redistributed in benefits to the least well-off. Taxation when used properly should enable everyone to share justly in the developing national wealth. Taxation is a contribution to the common good.
- 3.3 In *Of Equal Value* the Methodist Church recognises the importance of integrity in its own financial affairs when speaking out on issues of government cuts. This can be seen to apply more broadly to questions of social justice and inequality. If the Church fails to fulfil its moral and legal duty to pay tax then its ability to speak out on behalf of the poorest in society will be compromised.
- 3.4 The position of the Methodist Church on taxation, as represented in these two reports, can be summarised as follows. The state has a legitimate expectation that people will pay the taxes they owe. Such taxation fairly paid can contribute to a more just, relational society. Therefore, the Church expects people to pay the taxes they owe. The Church also expects companies to be transparent around their corporate tax affairs² and to pay what they owe.

4.0 Summary of Progress

- 4.1 Since the 2015 Memorial to the Conference, JACEI has undertaken a broad range of work on the issues surrounding tax justice. There has been detailed discussion of the ethical and theological questions involved in tax along with research undertaken to understand the options and levels of efficacy of different policy responses. This work has been necessary to build the foundations of an ethical investment engagement policy on tax justice.
- 4.2 The strategies and legal arrangements used by companies to reduce their tax liabilities, and as a result to avoid tax, are highly complex. Given the amount of money at stake, highly specialised professionals are employed to manage or to provide advice on corporate tax management, a part of which may be the establishment of tax avoidance structures. This makes the engagement with companies about tax justice a complicated, often highly technical exercise. After consultation with other church partners, and having observed the work that a number of other groups are doing in this area, it has become apparent that a solution to the technical difficulties of such work is to focus on transparency of tax reporting. Transparency and exposure to scrutiny is likely to lead to better tax policy given the opprobrium held for those who practice tax avoidance.
- 4.3 A roundtable discussion concerning tax policies and future steps was arranged by JPIT with representatives from the Church of England Ethical Investment Advisory Group, the Quakers, Christian Aid, the Methodist Tax Justice Network and CFB. This meeting was valuable in bringing together the expertise and experience of various partners.

² Corporate tax affairs incorporate all aspects of liabilities to the state and are not restricted to Corporation Tax.

- 4.4 Currently, the Church of England is working through the ecumenical Church Investors Group (CIG) in conjunction with Principles for Responsible Investment (PRI) to deal with questions of taxation. They have selected two sectors of priority for engagement: technology and healthcare. The PRI has identified fifty companies of particular concern to engage with, and the CIG has begun engaging with those that they are invested in collectively.
- 4.5 The Quakers have chosen to engage with a number of companies by writing to them to ask questions about their tax strategy and governance arrangements. They have used the Fair Tax Mark as a basis to assess the responses they have received and to consider further engagement in future. The Quakers have written to those companies they are invested in which are accredited by the Fair Tax Mark to express their appreciation of that fact.
- 4.6 Christian Aid, Oxfam and ActionAid have jointly produced a report, *Getting to Good: Towards Responsible Corporate Tax Behaviour*, describing what a responsible tax policy for a company would look like. They have used this report as a means of engaging companies in their position as campaigners. They have focused in particular on those companies that have been in the spotlight for poor tax arrangements and who are keen to have a more ethical tax policy. The report points out that ethical tax behaviour benefits companies as well as the countries in which they operate.

5.0 Next Steps

- 5.1 Following these engagements, JACEI agreed a draft position paper and consequently the Central Finance Board will be producing a policy statement later this year which will shape its ethical investment practice. These will both be published on the CFB website.
- 5.2 It would not be feasible for CFB's investor engagement to make technical determinations around the intentions of individual financial structures within companies. Rather it would be more fruitful to encourage transparent tax compliance and to focus on how a company manages its tax affairs.
- 5.3 Hallmarks of best practice in this area are a meaningful published tax policy that indicates that the ethical and social implications of taxations are recognised, and that a tax is understood as more than a legal commitment to be minimised. Other areas are transparency around how tax is managed, how much tax is paid and in which jurisdictions. The CFB will continue to work collaboratively with others, such as the CIG in the engagement with companies.

6.0 Conclusion

- 6.1 The Methodist Church has a clear longstanding position on the importance of tax in building the just society our faith asks us to join in creating. JACEI acknowledges the work of the Methodist Tax Justice Network and others for raising this issue of tax justice and engaging with JACEI and the Connexional Team. It is increasingly clear that, while most companies and individuals pay tax with integrity, some go to extraordinary lengths to reduce or eliminate the contribution they make.
- 6.2 The policy paper to be produced by CFB later this year will enable it to engage with companies around tax justice specifically around tax transparency, enabling the Methodist Church to make a contribution to increasing awareness and raising expectations around the fair payment of tax.

*****RESOLUTIONS**

17/1. The Council receives the report

17/2. The Council encourages the Central Finance Board, the Joint Advisory Committee on the Ethics of Investment and the Connexional Team to continue highlighting issues of tax justice.

17/3 The Council commends the report to the Conference as a further reply to M30(2015).