

Policy Statement - Tax Justice

1. Preamble

- 1.1. The payment of tax is a contribution to the common good that enables a state to provide a range of public services for the benefit of all. It is the position of the Church that individuals and corporate bodies have an ethical obligation to obey the spirit, as well as the letter of the law on tax.
- 1.2. Tax justice has become a significant political and ethical issue in recent years. Scandals highlighting tax avoidance on the part of some large multinational companies in particular have raised the profile of tax justice, not least during years of restricted growth in public spending. This has contributed to growing pressure on Government and international agencies, such as the G7, G20 and OECD to improve legislation and enforcement, and on companies to organise their tax arrangements in a responsible manner that is within both the spirit and the letter of the law.

2. Biblical background

- 2.1. Tax and an obligation to pay are mentioned in the Old and New Testaments. Biblical tradition points to the important role tax plays in creating a more just society and in establishing correct relationships. When, in the New Testament, Jesus is asked whether it is lawful to pay taxes to an (oppressive) emperor his reply, “give back to Caesar what is Caesar’s and to God what is God’s” (Mark 12: 13-17), highlights that the Roman Empire has a legitimate demand on people’s incomes, but that God’s demands are even more important.
- 2.2. Tax facilitates complex beneficial economic relationships within society. Not all of these relationships can be reconciled through a simple contract. Tax provides for the payment of security, education, welfare and healthcare, as well as sustaining the legal framework to ensure fair transactions and property rights. In Romans, Paul writes “pay to all what is due to them – taxes to whom taxes are due, revenue to whom revenue is due... honour to whom honour is due... Love does no wrong to a neighbour; therefore, love is the fulfilling of the law” (Romans 13:7).
- 2.3. The Bible also makes clear that the payment of tax, when rightfully due, is legitimate; “therefore, it is necessary to submit to the authorities, not only because of possible punishment, but also as a matter of conscience” (Romans 13:6).

3. The position of the Methodist Church

- 3.1. The Methodist Conference has received reports of particular relevance to the question of tax justice, including “The Ethics of Wealth Creation” 1 (1990), and “Of Equal Value: Poverty and Inequality in the UK” 2 (2011).
- 3.2. In the “Ethics of Wealth Creation” (1990) the importance of structuring capitalism so as to achieve international as well as national justice was highlighted. “Christians must struggle with the fact that we have a clear idea of a global common good, but no structure that embodies our common citizenship. Capitalism must be shaped to address this problem and so must the Church.”. Thus, tax justice forms an essential part of the Church’s strong commitment to international justice.
- 3.3. In “Of Equal Value: Poverty and Inequality in the UK” (2011), the Methodist Church acknowledged the importance of tax in creating a just society by stating that “money paid in fair taxation is a gift freely given; a contribution to the common good. When a proportion of this money is fairly paid in benefits to the least well off, it contributes to creating the just and compassionate society that the Church would wish to see. Those who would abuse these systems by not abiding by either their letter or their spirit push the goal of a just society further from our grasp.”
- 3.4. Conference received a Memorial in 2012 (M32)³ on Tax Justice from the Birmingham District Synod, welcoming the 2011 report (above) and asked Conference (inter-alia) to:
 - Urge all relevant sections of the Connexional Team to give active support to the issues being raised by the Methodist Tax Justice Network (MTJN) as and when they are able.

Conference accepted the Memorial and called for tax justice to be included in relevant work-plans as resources allowed.

3.5. The 2015 Conference received a further Memorial (M30)5 from the Birmingham District. This Memorial welcomed the “progress that has been made on communicating the issue of tax justice throughout the Methodist Church by the Methodist Tax Justice Network (MTJN) especially in association with the Joint Public Issues Team (JPIT). The Memorial then asked Conference (inter alia) to call upon:

- JACEI in conjunction with the Central Finance Board urgently to develop a Position Paper leading towards a Policy Statement on tax justice in order to address companies in which the Church invests on this issue...and to keep the Church informed on progress.

Conference accepted the Memorial and its reply also “directs the Methodist Council to ensure that the Connexional team work with JACEI and the CFB to identify when further work on these [tax justice] issues can be completed and further directs Council to review progress by January 2017.”

3.6. The Methodist Church’s position on tax can be summarised as follows:

- The state has a legitimate expectation that people will pay the taxes they owe;
- Such tax, fairly paid, can contribute to a more just and relational society;
- The payment of tax is therefore legitimate and bears both a legal and a moral duty;
- It is correct to abide not only by the letter of the law, but also within its spirit;
- As such, the Church expects people to pay the taxes they legitimately owe;
- There is an expectation that companies should be transparent about their corporate tax affairs and pay what they owe.

4. CFB and JACEI activity

4.1. The CFB and JACEI have been engaged with the subject of tax justice for sometime. This activity has included:

- JACEI receiving a briefing on tax and ethical investment from the CFB in 2013
- JACEI receiving a tax justice paper in March 2013 prepared by JPIT, and in turn responding to correspondence the CFB had had with the Methodist Tax Justice Network
- CFB participating in the ‘Tax Dialogue: on responsible tax for sustainable development’ in 2015
- CFB participating in and delivered a speech at a fringe event at 2016 Conference entitled ‘The Joy of Tax’
- CFB noting the adoption of the fair tax mark by SSE and engaging with the company on tax
- CFB participating in the roundtable on tax convened by JPIT in the autumn of 2017

5. Current Issues around Taxation

5.1. The emergence of technology and e-commerce has undoubtedly added complexity and allowed the flow of capital for tax planning purposes to be pursued with increased aggression. In 2012, a series of scandals emerged involving major multinational companies avoiding tax from the UK Government. Amazon, Starbucks and Google came in for particular criticism from the House of Commons Public Accounts Committee6.

5.2. Concerns have been raised about the implication such practices have, both for the tax revenues of the exchequer, and the reputation of businesses that benefit from their license to operate under the Rule of Law, but where they contribute very little to that society.

5.3. The Institute of Business Ethics (IBE) argues that the behaviour of a business in tax planning ‘falls into the realm of ethics because businesses have a choice about their approach to interpreting the law and hence paying taxes. Whilst remaining legal in all it does, where a business draws its ethical line regarding how to interpret the tax laws and arrange its affairs is subject to a good deal of discretion.’7 This can extend to where it pays its taxes.

6. Policy

6.1. Informed and meaningful engagement on tax with different companies requires a high level of technical expertise owing to the complexity of tax law and the multi-jurisdictional nature in which it is paid.

- 6.2.** It would generally be neither feasible nor desirable for investor engagement to make technical determinations around the intentions (or otherwise) of individual financial structures by companies. Fruitful engagement should be centred on encouraging tax transparency and on how companies manage and disclose their tax arrangements.
- 6.3.** Transparency and disclosure is viewed as the most beneficial avenue for engagement as many of the financial structures that often determine tax liabilities are occluded. Secrecy and complexity obfuscate understanding. While such structures may have legitimate use (including entirely appropriate tax planning and some use of low tax jurisdictions), secrecy raises concerns about the appetite and desire to avoid tax.
- 6.4.** A transparent tax policy leads to greater confidence that financial engineering has a legitimate purpose and is acceptable from a societal standpoint.
- 6.5.** Hallmarks of company best practice in this area include:
- A meaningful published tax policy;
 - A statement that tax compliance is understood as being more than legal compliance;
 - A statement on how tax planning is arranged and managed;
 - Disclosure on how much tax is paid and in which jurisdictions, and;
 - A view of the progress the company is making towards adoption of the Fair Tax Mark.
- 6.6.** In seeking to engage with companies this Policy recommends an approach focused on transparency and openness. For instance we note the elements of best practice thinking developed by the PRI (Principles of Responsible Investment) and also by ActionAid in its primer, “Tax Responsibility – an Investor Guide”⁸ around the primary areas of:
- Tax Policy
 - Tax Management
 - Tax Reporting
- 6.7.** A responsible tax policy would be a clearly communicated tax policy, publicly available, which aligns the company with accepted best practice, sets out the company’s approach to its tax arrangements and rules out aggressive tax planning practices.
- 6.8.** Tax management would ensure that the responsible tax policy is implemented throughout the Group and that it is communicated effectively, accompanied by appropriate training and details relevant compliance functions. Mechanisms for identifying non-compliance should be clearly highlighted.
- 6.9.** Reporting on tax policy and its management would include detailed information of where and how a company pays tax by jurisdiction, sufficient to ensure that practice mirrors policy. Investors should be able, clearly, to assess and gauge risks associated with the company’s practices and where they depart from policy.

7. Questions to enable effective CFB engagement on tax

- 7.1.** Relevant questions to be asked as part of any engagement would include:

Tax Policy

- Who sets the Policy and who provides input (internal and external)?
- Who has responsibility for the Policy within the business, and how often is it reviewed?
- Does the Policy address risk and the appropriate level of risk appetite?
- Does the Policy specifically rule out the use of aggressive tax planning schemes?
- What role does the Board have in overseeing the Policy as fair, appropriate and just?

Tax Management

- What systems are in place to implement the Policy?
- How is it communicated throughout the business

- What formal process is there for reviewing the purpose and use of tax havens?

Tax Reporting

- Is the full tax Policy disclosed and available
- Does reporting include country by country reporting of how much is paid and where?

8. Notes

1. http://www.methodist.org.uk/downloads/pi_ethicsofwealthcreation_90.pdf
2. <https://www.ifs.org.uk/comms/comm118.pdf>
3. <http://www.methodist.org.uk/about-us/the-methodist-conference/conference-reports/conference-reports-2012/>
4. <http://www.christianaid.org.uk/pressoffice/pressreleases/comment/the-price-of-tax-dodging-in-the-developing-world.aspx>
5. <http://www.methodist.org.uk/about-us/the-methodist-conference/conference-reports/conference-reports-2015/>
6. <http://www.bbc.co.uk/news/business-20288077>
7. https://www.ibe.org.uk/userassets/briefings/ibe_briefing_31_tax_avoidance_as_an_ethical_issue_for_business.pdf
8. https://www.actionaid.org.uk/sites/default/files/publications/tax_guide_for_investors_final.pdf