

Paper 1 of the Introduction to the Project "Tax Justice & Poverty"

# Introduction

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# 1 Foundation & Project Partners<sup>1</sup>

Both the 34<sup>th</sup> and 35<sup>th</sup> General Congregations and the Superior Generals of the Jesuits asked the worldwide members of the Society of Jesus as well as its lay co-operators, to develop and implement more "projects at eye level" between Jesuit institutions from different countries, with a special focus on and attention to Africa<sup>2</sup>. The project presented here aims to identify an area of common concern between European and African countries, to develop common tools of examination and to develop common goals for Advocacy and Campaigning cooperation in order to address and advance issues discovered. The project involves three Jesuit Institutions with three people in charge of it:

- For Germany the "Jesuitenmission" in Nürnberg, the Developmental Aid organisation of the German Jesuits, with the Centre of Global Learning as its research & advocacy branch. Responsible: Dr. Jörg (George) Alt SJ, who holds degrees in Social Science, Philosophy and Theology.
- For Kenya: The Jesuit Hakimani Centre, the Social Centre of the Eastern African Province of the Jesuits. Responsible: Emmanuel Tendet, Governance Officer, BA in Political Science.
- For Zambia: The Jesuit Centre for Theological Reflection, the Social Centre of the Zambian/Malawi Province of the Jesuits. Responsible: Musonda Kabinga, Program Officer, Economic Equity and Development, BA in Development Studies.

## 2 Starting Point

In spite of the "promises" of neoclassic and neoliberal theories of free markets, it is not the wealth of all that increases, but rather the gap between rich and poor. One of the tasks of tax policy is redistribution and development<sup>3</sup>: If the market does not prevent this gap from growing, tax policies should be designed to reduce or at the very least slowdown the gap's growth. Additionally, other public policies, which in turn need to be funded by tax money, should alleviate disadvantages and mitigate the gap's effects. Even more important, because it affects rich and poor alike: Income raised by taxes are needed by governing bodies to finance all those tasks benefitting all citizens such as, infrastructure, health, education, security, legislation, jurisdiction and executive representation. In other words, income raised by taxes is used for all those products and services which make a society more than the sum of different individual actors, but a community.

However, in our globalized world, tax policies increasingly fail to deliver: Professional players in the economy and global finance, and also the ordinary, but 'knowledgeable' citizen (or those with enough money to pay a good tax-lawyer), make easy use of the global market and its legal infrastructure, whereas national tax institutions are bound to their national legislation and jurisdiction in their pursuit of fair and appropriate taxation. As a consequence, at the very best, national institutions are catching up with international financial flows at a very slow pace. The symptoms caused by this mismatch include illicit financial flows<sup>4</sup> and capital flight. This is done through, among others, anonymous letterbox companies, tax

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<sup>1</sup> This Introduction is taken from the Project Concept to the research "Tax Justice & Poverty", May 2013

<sup>2</sup> E.g. General Congregation 34, Decree 3, no.12, General Congregation 35, Decree 3, no. 39, priority I. See for overview: Kiyaka, I. (2008) GC35: Experience and Implications for Africa. In: Review of Ignatian Spirituality - XXXIX, 3/2008 pp. 78-86. Internet <http://www.sjweb.info/documents/cis/pdfenglish/200811907en.pdf>

<sup>3</sup> E.g. Cobham, A. (2005) Taxation Policy and Development. Oxford Council on Good Governance Analysis Paper Nr. 2, Internet [http://www.taxjustice.net/cms/upload/pdf/OCGG - Alex\\_Cobham - Taxation Policy and Development.pdf](http://www.taxjustice.net/cms/upload/pdf/OCGG_-_Alex_Cobham_-_Taxation_Policy_and_Development.pdf) and JCTR (ed.) The taxation System in Zambia – Technical Report, January 2011

<sup>4</sup> E.g. Money from bribery, criminal money, commercial tax evasion and avoidance...

havens, transfer/trade/service mispricing and smuggling.<sup>5</sup> The damage to the community and the common good is enormous:

- Every year, developing countries lose US\$ 160 Billion because Transnational Corporations don't pay their taxes, which surpasses the global annual ODA of US\$ 129 Billion (2010) by far.<sup>6</sup> Financial losses for Africa alone over the past 10 years due to illicit capital flows amount to US\$ 357 Billion.<sup>7</sup>
- While wealthy Greeks withhold 11 Billion Euro in taxes every year, the international community pays billions of Euros for one 'rescue package' after the other.<sup>8</sup>
- In Germany, there is uproar about cheating on the lower end of society ("Sozialbetrug" = fraudulent reception of social benefits). However, there is need to contrast this cheating with the damage done at the upper end of German society, e.g. by tax fraud of all sorts, which ranges between 30 and 100 Billion Euro.<sup>9</sup> In this case 1 Euro damage due to "Sozialbetrug" stands against 530 Euro damage due to tax fraud.<sup>10</sup>
- Annually revenue loss of about 10 Billion Kenyan Shilling is experienced in Kenya.<sup>11</sup> This is because Kenya is struggling with the problem of tax non-compliance among business firms which constrains the realization of revenue collection targets by Kenya Revenue Authority.<sup>12</sup> This amount can be used to finance free primary education which is pegged at 8.3 billion in the FY 2012/2013, or increase the social welfare 10 times, from the current kshs 2.000 per person up to kshs 20.000 per person.<sup>13</sup>
- In Zambia, the state foregoes 1.493 Billion Kwacha revenue because of trade tax incentives (which amounts to about 9 % of the national budget), and an additional 217 Billion Kwacha because of tax concessions.<sup>14</sup> This money can be used to assist vulnerable groups such as orphans or elderly citizens. Money for their support comes from the Social Protection Component of the State Budget which, in 2009, was at 374 Billion Kwacha. Those 1.710 Billion Kwacha added, would mean an almost fivefold increase of means available.
- Private wealth increases not only in the north: One quarter of the world's 1.210 Billionaires lives in developing or emerging countries – sometimes they only register

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<sup>5</sup> Raymond Baker, Director of Global Financial Integrity, points out that too much attention has been given over the past years to corruption, that is, the proceeds of bribery and theft by government officials. According to him, however, this amounts to a mere 3 percent of the world's cross-border flow of illicit money. Criminal proceeds generated through drug trafficking, racketeering, counterfeiting and more are about 30 to 35 percent of the total, proceeds of commercial tax evasion, mainly through trade mispricing, are by far the largest component, at some 60 to 65 percent of the global total. See: Global Financial Integrity (Ed) (2009) *Illicit Financial Flows from Africa – Hidden Resource for Development*, Foreword.

<sup>6</sup> Misereor (2011) *Unternehmen. Steuern. Entwicklung. Dossier11-2011*

<sup>7</sup> In: Global Financial Integrity (Ed.) (2012) *Illicit Financial Flows from Developing Countries: 2001-2010*, p. 12f.

<sup>8</sup> Focus: Griechen hinterziehen 11 Milliarden Euro Steuer. 22.8.2012

<sup>9</sup> Depending on who is doing the research and what kind of fraud this study takes into account. The lower range is marked by the figures of 30 Billion Euro (estimate by the German Tax-Trade Union), whereas Hans Berg, an anonymous employee of a state tax authority, puts the annual volume for Germany at 70-100 Billion Euro.

<sup>10</sup> For this and the previous point: See Pax Christi (ed.) (2011) *Ökonomische Mythen der Gegenwart*. Erstellt von der Kommission Globalisierung und Soziale Gerechtigkeit, November 2011. S. 7

<sup>11</sup> Kenya Revenue Authority (2012) *Budget Statement for the Fiscal Year 2012/2013*, by Robinson Njeru Githae, EGH, MP, Minister of Finance, p. 17, Nr. 67. See: [http://www.statehousekenya.go.ke/publications/14-06-2012-13-BudgetSpeech-Distribution%20Final%20\\_MF.pdf](http://www.statehousekenya.go.ke/publications/14-06-2012-13-BudgetSpeech-Distribution%20Final%20_MF.pdf)

<sup>12</sup> See, e.g.: *Taxpayers' Attitude And Tax Compliance Behavior In Kenya: A Case Of Small And Medium Enterprises' business Income Earners In Kerugoya Town, Kirinyaga District*. See: <http://tinyurl.com/bkt4x3q>

<sup>13</sup> For reference: Item 53 on page 14 of the *Budget Statement for the Fiscal Year 2012/2013* – see Footnote 10

<sup>14</sup> Figures relating to 2009. From: *The Taxation System in Zambia. A technical report for the JCTR*. January 2011, p. 52f. See also: Action Aid (2013) *Sweet Nothings. The human costs of a British sugar giant avoiding taxes in southern Africa*.

their residence there for tax purposes.<sup>15</sup> Recent estimates show that the rich of the world and all others concerned with tax fraud hide something between US\$ 21-32 trillion in secrecy jurisdictions, out of reach for tax authorities.<sup>16</sup>

Based on the findings above, it is evident that there is enough money for public tasks, but it is increasingly difficult for governments and tax authorities to get their hands on it. At the same time public debt rises, the situation of the poor worsens, as does the potential of states to invest in public goods such as infrastructure, health care or education. Even worse, states lack money to counter global threats such as climate change or environmental degradation.

### 3 The Project & its Goals

The proposed research will highlight that, if states were able to collect adequate tax, all would profit greatly. Furthermore, the wealth gap would stop growing and poverty could be reduced.

Before neoliberal globalization, it was easier for states to have people and corporations pay a fair share of taxes. However, under the conditions of a global world society, there are more and more (legal and illegal) opportunities for taxable subjects to transfer income and wealth out of the reach of taxation and taxation authorities. A lot of those activities are legal, but there is growing discussion, whether they are unethical or immoral.<sup>17</sup> What is needed, therefore, from our point of view, are fair and efficient taxation systems catching up with the conditions of global world society, to bring the unethical and immoral back in line with fair, efficient and enforceable regulation, so that once more everybody is paying a fair share of taxes, to ensure that sufficient revenues are at hand for public and communal tasks. In such a situation, Kenya and Zambia would be less dependent on developmental aid and could gain independence from external financing and financiers, Germany could correct social injustices and imbalances that have grown over the past decade<sup>18</sup> and catch up on neglected social investment such as education, infrastructure and social security, and in all three countries something could be done against the increasing concentration of economic, financial and political power which is a threat for democracy.

The research project needs to be seen on the background of the tremendous amount of data and information made public by "Offshore Leaks", which provides unprecedented insights into the world of tax secrecy.<sup>19</sup> Given the limited resources of participating institutions in this research, this project does not want to duplicate, but to complement to the debate initiated by Offshore Leaks. Taking into account revelations from Offshore Leaks by the end of April 2013, it seems to the participating organisations, that the following aspects are less well covered by Offshore Leaks and could be covered by this research project:

- There is not much about Africans and African Countries, i.e. the bulk of data focuses on other parts of the world.

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<sup>15</sup> Misereor, Global Policy Forum, terre des hommes (2011) UmSteuern. Folgen von Kapitalflucht und Steuerhinterziehung für die Länder des Südens – und was dagegen zu tun ist.

<sup>16</sup> Figure as of 2010. In: TJN (2012) The Price of Offshore revisited.

<sup>17</sup> See, for example, the feelings of Rudolf Elmer, COO of the Cayman Branch of the Swiss Bank Julius Bär, one of the sources leaking information of the banks practices to Wikileaks in 2008.

[http://wikileaks.org/wiki/Bank\\_Julius\\_Baer:\\_Grand\\_Larceny\\_via\\_Grand\\_Cayman](http://wikileaks.org/wiki/Bank_Julius_Baer:_Grand_Larceny_via_Grand_Cayman). A different view is taken by the CEO of Google, Eric Schmidt <http://crave.cnet.co.uk/software/google-boss-defends-immoral-uk-tax-arrangements-50011008/>

<sup>18</sup> As revealed in the 2012 Report on the Distribution of Wealth in Germany, compiled by the Federal Ministry of Labour and Social Security – before it was 'edited' by cabinet.

<sup>19</sup> See <http://www.icij.org/offshore>

- The huge amount of cases published by Offshore Leaks needs to be reflected in a more systemic framework by pointing out how the behaviour of many individual and corporate actors has repercussions on the community as a whole and the common good and does not want primarily to join the "name & shame" game.
- There is no clear idea about the proportional share between legal, illegal and criminal activities, similarly, there is no estimate about the proportion of damage caused by the participation of ordinary citizens, wealthy individuals, corporate and criminal actors in the tax cheating game.
- A clearer view needs to be taken as to what characterizes legal (but immoral/unethical) behaviour as opposed to illegal or even criminal behaviour. Linked to this is the need to develop strategies to counter growing popular perceptions of a tax collecting state being itself a 'thief' to be cheated rather than the provider of many essential services for a society to function.
- Even if there is a lot of tax evasion and tax avoidance, a paper like this should not stop by asking that there should be more efficient taxation. It is also important to establish a link between the increase in tax revenue on the one hand and how this might alleviate poverty and assist the disadvantaged on the other hand. This raises new questions of good governance.

Having a better understanding of the preceding aspects would make it easy to develop a priority of policy recommendations which stops the wealth gap from increasing and at the same time benefits the disadvantaged and poor since some aspects are more important to pursue or easier to tackle than others.

This research project will most likely support the hypothesis that both rich and poor countries have common problems in the area of tax justice. Some of them will have to be addressed nationally, some internationally. Concerning the latter, for example, by amendment of international law and substantial improvements in the area of cross border law enforcement, not the least in terms of personnel, qualification, capacity and authorization.

This will not happen easily as previous efforts to dry out Tax Havens or the Campaign for the Financial Transaction Tax in Europe have demonstrated. It needs persistent, cross-border cooperation and support of the people in general and the civil society sector in particular to put pressure on parliaments and governments to move against the powerful lobby of corporate financial and economic interests. In addition, there is a specific challenge and responsibility for all those faith based organizations that recognize that we live in a world full of sinful and unjust structures and that faith based action towards increased justice is an essential component for those following Jesus.<sup>20</sup>

Lusaka, Nairobi and Nuremberg, 13 May 2013

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<sup>20</sup> E.g. St. Cyprian of Carthage: "For whatever is of God is common in our use, nor is anyone excluded from his benefits and his gifts, so as to prevent the whole human race from enjoying equally the divine goodness and liberality... In this example of equality, he who, as a possessor in the earth, shares his returns and his fruits with fraternity, while his is common and just in his gratuitous bounties, is an imitator of God the Father."

E.g. Pope John Paul II: "One of the Church's concerns about globalization is that it has quickly become a cultural phenomenon. *The market as an exchange mechanism has become the medium of a new culture.* ... We are seeing the emergence of patterns of ethical thinking which are by-products of globalization itself and which bear the stamp of utilitarianism. But ethical values cannot be dictated by technological innovations, engineering or efficiency; ... *Ethics cannot be the justification or legitimation of a system, but rather the safeguard of all that is human in any system.* Ethics demands that systems be attuned to the needs of man, and not that man be sacrificed for the sake of the system." [Address to the Pontifical Academy of Social Sciences Friday, 27 April 2001