Investigating Our Investments

An insight into tax avoidance in the Methodist church's investment portfolio

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Methodist Tax Justice Network - **£1**

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Foreword

There are not many days go by without a news story about international companies somehow avoiding paying their taxes. In the week I wrote this in early November 2014 it was announced that Facebook had paid no UK tax for the second year in a row, it claimed to have made a loss of £11m, though its US parent had made a £900m profit. Then the *Guardian* and others reported how major companies had set up subsidiaries in Luxembourg to make loans and save millions in tax.

An astonishing number of UK household names have large numbers of (many) subsidiaries in tax havens. We might ask, 'What has that to do with us?' I believe there are three answers. Firstly, if we are in a pension scheme it is likely we have investments – at least indirectly - in many of these companies. This can be true of other savings schemes also. This implicates us in what appears to be deliberate avoidance in paying taxes. Secondly, it greatly affects the poor, experts say tax dodging costs Africa up to three times the amount it receives in aid!

Thirdly, such practices are clearly contrary to Biblical teaching about justice. We need a fair society, where people are free to create wealth (honestly) but must not cheat, and should also be willing to share those riches when they become too burdensome. The theme of Jubilee runs through both Old and New Testaments, see the Methodist Tax Justice Network's previous publication on 'The Bible and Tax'.

MTJN has been trying to stimulate the debate in Methodism for the last two years on this vital topic. We decided our next step should be an analysis of some of the major companies in which our Central Finance Board invests. The CFB of course is doing its best for our Church and its Pension Scheme. But we all have to take responsibility for where our money is to be found, and how it is accumulating. This booklet should help us continue in debate and action to challenge these powerful financial players to ensure their activities are just and fair, especially when it comes to paying tax.

Rachel Stephens, Chair of the MTJN

Introduction

Since its creation in 2012, the Methodist Tax Justice Network has aimed to highlight the issue of tax justice to members of the Methodist Church and beyond. Tax avoidance and evasion by large corporations and wealthy individuals not only harms this country as it struggles to emerge from a recession caused largely by bankers, but also developing countries as profits rightly theirs are shifted abroad to offshore financial centres. After meeting key members of JPIT (Joint Public Issues Team) and JACEI (Joint Advisory Committee on Ethical Investment) after the 2013 Methodist Conference, MTJN felt one contribution we could make would be to research the church's own investments. This would ascertain the extent to which these companies were using tax avoidance and demonstrate to what degree tax dodging is endemic.

What the initial research showed was startling - nearly every company in which the Church invests has, to some extent, engaged in tax dodging or has subsidiaries in known tax havens - this is not a criticism of Methodist investors, as all such portfolios will look largely the same. After further informal conversations with JACEI, MTJN decided to focus on a small number of companies in which we have sizeable investments. This research will hopefully provide the impetus for the Church to engage further with these companies, especially on the issue of their tax arrangements. It is as accurate as we could make it, we hope companies will soon see transparency as key in corporate responsibility.

However, MTJN also hopes this research will be of interest to the wider church and community, to all who want to be more aware of the world of finance, and to those who wish to raise this issue at church, Circuit, District or national level, or with other companies or funds in which they invest. We hope this new study booklet will prove informative and challenging, and inspire you to take further action in both helping the Methodist Church to combat the scourge of international tax dodging and in any other appropriate way you may find.

The third statistic in each company heading represents the proportion of that company's subsidiaries which are in tax havens. All holdings, values[1] and subsidiary figures[2] are believed to be correct as of June 2014.

The Research

BHP Billiton

Methodist Shares (2013): 400,000
Value of holding (2013): £8,354,000
Tax Haven subsidiaries: 137/452 (30.31%)

BHP Billiton are, as of 2013, the world's largest mining company. While headquartered in Melbourne, Australia, the company are dual-listed on both the Australian and London Stock Exchanges. Due in part to the presence of large dual-listed corporations such as BHP and Rio Tinto, Australia were one of the first countries to introduce legislation forcing large companies to reveal their tax arrangements in April 2013[3].

In December 2012, however, Jubilee Debt Campaign revealed that the Mozal Aluminium Smelter in Mozambique, funded by development loans from various foreign governments and private investors (of which BHP was the largest) paid an annual tax rate of just 1% ($15m) to the Mozambique government. BHP Billiton alone made an average annual profit of $114m from the Mozal smelter between 2006 and 2012, while the governments and international bodies who supplied the loans, including the UK, the World Bank and the European Investment Bank, earned a combined total of $120m in interest[4].

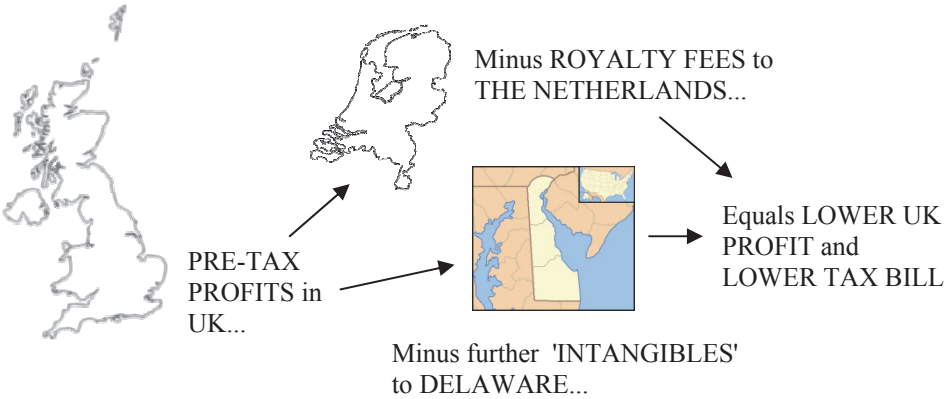
BHP's subsidiaries also provide evidence of tax avoidance arrangements. BHP Billiton Marketing AG, for example, is based in the low-tax Swiss canton of Zug. Here it performs 'marketing and trading' activities. Arrangements of this kind allow companies to buy resources from their own subsidiaries, usually in developing countries, for well under their market value, before selling them on at an inflated price, with the profits staying in Switzerland. Other subsidiaries, this time located in the US state of Delaware, relate to specific countries, such as BHP Minerals Ghana Inc and BHP Peru Holdings Inc[5].

BP

Methodist Shares (2013): 3,975,000
Value of holding (2013): £17,711,000
Tax Haven subsidiaries: 457/1568 (29.15%)

BP are one of the Methodist Church's biggest investments, and there are some positives that should be highlighted. Firstly, BP's number of subsidiaries in tax havens has decreased significantly between 2011 and 2013, according to data from ActionAid - down from 537 to 457. Secondly, they have paid the full 62% UK tax rate on oil profits in the last three years. Thirdly, they played a major role in the development of the Extractive Industries Transparency Initiative[6]. These achievements are all to be commended.

However, while their UK tax payments may be in order, their global figures do not add up. Platform, a UK-based campaign group researching the oil industry, reported in 2013 that despite BP's total pre-tax profits increasing from $13.1bn to $39.8bn between 2001-2011, their tax paid in the UK only grew from £707m to £730m in the same period. If this figure had grown in line with their profits, they should have paid $2.1bn[7]. This suggests that BP artificially lowered the profits they booked in the UK by shifting money into low tax jurisdictions overseas, masquerading as costs such as royalty fees - a technique called 'profit shifting'. BP claimed that this drop in UK profits is "a consequence of many business factors – such as BP's divestment programme, lower oil prices and increased capital investment to increase the life of the fields and to boost long term production."



Of BP's 457 tax haven-based subsidiaries, 324 are in Delaware (including some relating to operations in Vietnam, Tunisia, Oman, Papua New Guinea, Peru, Somalia, Indonesia and Kazakhstan) and 59 are in the Netherlands[8]. BP have claimed that it is "very misleading to imply that the Netherlands, Belgium and the US State of Delaware are tax havens.[6]" This shows a wilful ignorance of the status of 'conduit countries' like the Netherlands, and a far-too-narrow definition of tax havens.

Is Delaware a Tax Haven?

Delaware has more registered corporations (over 1 million) than people (917,002)[9]. **It does not tax certain 'intangible' payments, including royalties**, allowing US-based companies to remove taxable profits from other states. Between 2002-2012, this 'Delaware Loophole' allowed corporations to avoid paying $9.5bn in tax to other states. Furthermore, it takes less than an hour to set up a Delaware shell company. This requires **no employees, no US bank account** and grants **complete anonymity** to beneficial owners, meaning foreign companies can also use Delaware to avoid tax.[10, 11]

1209 North Orange St, Wilmington, Delaware - The Corporation Trust Centre. The legal address of 285,000 businesses, including 60% of the 'Fortune 500' list of America's largest companies.

GlaxoSmithKline

Methodist Shares (2013): 1,317,000
Value of holding (2013): £19, 169,000
Tax Haven subsidiaries: 91/420 (21.66%)

GlaxoSmithKline, who recently fought off a takeover bid from US pharma giants Pfizer, are a UK-based company with their headquarters in Brentford. This is something of which their CEO Andrew Witty is very proud - he launched a stinging attack in 2011 at companies moving their headquarters abroad for tax purposes, declaring it 'completely wrong' for businesses to view themselves as 'mid-Atlantic floating entities' with no connection to society[12].

While this is to be applauded, GSK are not without their own tax skeletons in the closet. In May 2012, BBC's 'Panorama' revealed that GSK used a Luxembourg subsidiary to pay a £6.34bn loan to their UK operations - the interest on this loan was then paid back to Luxembourg, thus artificially removing £124m. of taxable income from the UK . GSK still have 3 subsidiaries in Luxembourg[13].

Mauritius and India

According to Mauritius' tax treaty with India, **all capital gains are taxed in Mauritius**, where the foreign source income tax stands at **3%** and there is **no capital gains tax at all**. As a result, between 2001-2011, **39.6% of Indian Foreign Direct Investment** came from Mauritius. It is also the **fourth largest recipient of Indian outward investment**.[16]

A further 31 subsidiaries are in Delaware, 11 are in the Netherlands, and 2 are in Mauritius. One of the subsidiaries in this tiny Indian Ocean island is Castleton Investments Limited[14]. This holding company was used to purchase shares in GlaxoSmithKline Pharmaceuticals Limited (India). Mauritius has a 'foreign source income tax' of just 3%. Castleton then sold these shares on to a further GSK subsidiary in Singapore[15]. Due to India's imbalanced tax treaty with Mauritius, no capital gains taxes were paid to India, and the revenue from this share sale remained untaxed in the small island tax haven, instead of being reinvested or used to create jobs.

Associated British Foods

Methodist Shares (2013): 115,000
Value of holding (2013): £2,218,000
Tax Haven subsidiaries: 65/453 (14.35%)

Associated British Foods are owned by Wittington Investments Limited, who also own Primark, Fortnum & Mason and Selfridges. Wittington Investments are in turn owned by charitable fund (and Conservative Party donor) the Garfield Weston Foundation.

According to research by ActionAid, ABF have been guilty of tax avoidance in Zambia. Despite profits of $123m in the country since 2007, ABF subsidiary Zambia Sugar, has paid virtually no corporation tax, and could be said to have cheated Zambia of $27m. Zambia Sugar paid $47.6m to an Irish subsidiary (with no employees) as 'management fees', and routed a $70m loan through Ireland, avoiding $3m in interest fees. Furthermore, ABF switched the ownership of Zambia Sugar between Ireland, the Netherlands and Mauritius, reducing the Zambian tax bill by $7.4m, and took the Zambian government to court in 2007, in order to reduce their tax rate to just 10%, saving a further $9.3m.[17]

Find out more about tax avoidance by ABF and others in Zambia - download 'Tax Justice in Zambia' from our website: http://methodisttaxjusticenetwork.nationbuilder.com/resources

ABF have 5 subsidiaries at 16 Avenue Pasteur, Luxembourg. One of these subsidiaries, ABF European Holdings & Co SNC, was implicated in a tax avoidance scheme in 2011 involving interest-free loans being moved between this company, Primark Ireland and ABF's centre of operations in London. This strategy avoided payment in UK tax of £9.7m a year.[18] 16 Avenue Pasteur is the address of CAPITA Asset Services (the very same Capita to whom the government has outsourced a number of lucrative local government contracts). CAPITA explicitly announce on their website[19] that they can 'establish and administer companies and other special purpose vehicles in Jersey, London, Luxembourg, The Netherlands, Hungary, Switzerland and Ireland.'

Sainsbury's

Methodist Shares (2013): 425,000
Value of holding (2013): £1,490,000
Tax Haven subsidiaries: 15/89 (16.85%)

Former Sainsbury's CEO Justin King was an outspoken critic of tax avoidance - however, actions speak louder than words, and in this case, Sainsbury's record on tax issues is not spectacular.

On the 'Fair Tax Mark' system started by Richard Murphy, Sainsbury's scored a measly 2 points out of 15. These points are awarded in two main categories - UK tax paid and transparency. Between 2007-2012, Sainsbury's paid 7% under the UK's corporation tax rate on their profit, creating a tax gap of £458m between what it should have paid and what it did pay. Furthermore, despite being based in eight countries, Sainsbury's refuse to publish their financial results on a country-by-country basis or fully disclose their overseas subsidiaries[20]. This is contrary to Justin King's claims that the company was 100% UK based.

On further scrutiny of Sainsbury's subsidiaries and accounts, it can be shown that the supermarket aren't just underpaying on their taxes - they may well be artificially lowering their profits as well. Two subsidiaries are based in the infamous 0% tax rate UK Overseas Territory of the Cayman Islands. These subsidiaries, Holborn Funding Limited and Stores Overseas Limited, are both registered with Companies House as serving the purpose of 'Lending of monies to J Sainsbury plc group companies.' A further Jersey-based subsidiary, J Sainsbury (Jersey) Limited, is listed as having this same purpose[21]. In Sainsbury's annual accounts for 2012/13, a sum of £142m was deducted from their operating profits as a result of 'finance costs', primarily consisting of interest on borrowings[22].

Sainsbury's new Chief Executive, Mike Coupe, was found to be investing in a tax avoidance scheme known as the 'Invicta Film Partnership'[23]. Furthermore, Sainsbury's new mobile phone venture has its network supplied by infamous tax avoiders Vodafone[24].

Marks & Spencer

Methodist Shares (2013): 305,000
Value of holding (2013): £1,132,000
Tax Haven subsidiaries: 26/131 (19.85%)

Marks & Spencer scored fairly highly on the Fair Tax Mark ranking, gaining 9/15. However, it was pulled up on its failure to use country-by-country reporting on profits outside the UK, its increased profit margin of 10% outside the UK (suggesting profit shifting) and its use of subsidiaries in tax havens[25].

In 2013, the high street chain was accused by The Guardian of using an Amazon-esque transfer pricing scheme for their online sales. Marks & Spencer (Ireland) Limited, 'bought' the clothes at wholesale prices. When sold online at full retail price, the revenues were booked in Ireland and taxed at their 12.5% rate, despite being shipped from the UK[26]. What was not reported by The Guardian in their exposé was that this Irish subsidiary is owned by a Netherlands based holding company, Marks &Spencer (Nederland) BV.

Reading M&S's list of subsidiaries makes a strong case for the creation of a public register of beneficial owners. The Marks & Spencer Guernsey Investments Limited Liability Partnership apparently exists 'for provision of finance to companies in the Marks & Spencer Group'. Ownership is split four ways between the aforementioned Marks & Spencer (Ireland) Limited, Ignazia Limited (Guernsey), Aprell Limited (Ireland) and Teranis Limited (London). We do not know who owns these holdings companies and, therefore, who ultimately profits[27].

In a final bizarre twist, M&S have a Luxembourg subsidiary called Lima (Bradford) Sarl. This relates to a joint venture with ProLogis UK Holdings SA to develop 'an ambitious mixed-use scheme integrating distribution, industrial and office space, together with approximately 200 residential buildings on a 90 acre site adjacent to the M606 on the south east edge of Bradford[28].' We can make a pretty good guess as to why M&S have chosen to fund this project from Luxembourg.

Vodafone

Methodist Shares (2013): 12,050,000
Value of holding (2013): £19,949,000
Tax Haven subsidiaries: 115/387 (29.72%)

With over 12 million shares, the mobile telecommunications giant are the Methodist Church's largest holding. They are also one of the most infamous tax avoiders in the FTSE 100, and have been subject to numerous campaigns in relation to their tax dodging practices.

Vodafone are big fans of using Mauritius as a gateway to investing in Asia and Africa. As well as having a low tax rate, Mauritius is also a centre for what is known as 'treaty shopping' - using the highly imbalanced tax treaties drawn up between countries to avoid paying tax in the authority with the higher rate. For this reason, Vodafone's 22 subsidiaries in Mauritius are split between the control of their Indian and South Asian operations under the Hutchison Telecommunications brand, and their African operations as Vodacom[29]. Hutchison Telecommunications also paid interest on loans to a Vodafone subsidiary in the Cayman Islands, CGP Investments (Holdings) Limited, to shift profits out of India[30].

Treaty Shopping

'Double-Taxation Treaties' are, in principle, drawn up between countries to prevent the same revenues being taxed in both countries. However, these treaties are often hugely disadvantageous to developing countries and favourable to both tax havens and rich nations. In effect, they end up acting as Double Non-Taxation Treaties. If a UK corporation wants to shift profits out of a subsidiary in a developing country with a higher corporate tax rate, all they need to do is set up a shell company in a low-tax jurisdiction which has a favourable tax treaty with the developing country, for example the treaty between Mauritius and India.

UK company... owns subsidiary in **Mauritius...** owns subsidiary in **India**

Vodafone have also been engaging in tax avoidance schemes closer to home. Their pan-European Roaming Services business is run out of Luxembourg, as are Vodafone Marketing Sarl and Vodafone Investments Luxembourg Sarl. In the UK itself, Vodafone infamously paid no tax at all in 2012 or 2013, despite UK sales of £5bn and operating profits of £294m[31]. They claimed this was because they had already invested in the UK by building up their 3G and 4G networks, and had these investments deducted from their taxable profits in agreement with the government.

Lovely Luxembourg

Luxembourg offers high secrecy and low-tax corporate structures within the EU. Its standard corporate tax rate is 29% only applies to fully resident companies - thanks to the 'participation exemption' law, **any dividends** received from **a subsidiary in which a Luxembourg company owns a holding of over 10%** are **tax exempt**. **80% of intellectual property assets are also exempt**, while royalties and interest payments have **no withholding tax** payable.

Finally, Vodafone have had to make two settlements with HMRC over unpaid tax, relating to their operations in Ireland and Luxembourg. In 2009, Vodafone reclaimed €67m from the Irish government in tax that it should have paid in the UK. This was in relation to a shell company, with no employees, that was set up in Ireland between 2002 and 2007. Taxed at Ireland's 12.5% corporate rate, this subsidiary was used to receive royalty payments from Vodafone operations across the globe, in a classic profit shifting manoeuvre. These profits, totalling €1bn over four years, were then shifted again to Luxembourg[32]. In 2010, Vodafone agreed to pay £1.25bn to HMRC after it had sent loans to its German subsidiary via Luxembourg in order to purchase the German firm Mannesmann for £112bn. The interest payments then stayed in tax-free Luxembourg. According to Private Eye, this still leaves a gap of £6bn compared to what was owed[33].

Intercontinental Hotels Group

Methodist Shares (2013): 47,000
Value of holding (2013): £893,000
Tax Haven subsidiaries: 95/254 (37.40%)

IHG are among the church's smaller holdings, but this doesn't mean we will hold less sway as a shareholder when it comes to raising the question of tax avoidance. According to their annual reports, IHG have had their tax bill slashed every year for the last three years in view of 'benefits on tax reliefs' and 'adjustments in respect of previous periods'. Last year, this saw their tax bill reduced from $62m to just $13m[34].

As with many of the FTSE 100 companies, a decent chunk of IHG's tax haven subsidiaries are in Delaware, and all 38 are registered to the Corporation Trust Centre, 1209 North Orange St, Wilmington. Among these subsidiaries are finance companies for some of IHG's big name franchises, including Holiday Inns and Crowne Plaza. Unless IHG are expecting a lot of holiday makers to visit Delaware, we can assume that these companies exist to reduce the tax bill on their US operations.

However, Delaware is not where the most interesting IHG subsidiary resides. That accolade goes to Holiday Inns (UK) Inc. - Malta Branch. With no Holiday Inns on the island, and the explicit reference to the UK branch of the business, we can assume that this company is not for running hotels. IHG also has 8 subsidiaries in the Netherlands, primarily holding and finance companies for their BHR hotel chain[35].

Malta - a unique tax haven

Malta's tax system is one of the strangest but most attractive for businesses in Europe. Rather than simply having a low tax rate, all profits are initially taxed at 35%. Shareholders are then entitled to **a refund of 6/7ths** (reducing the effective tax rate to just **5%)** on taxes paid on profits not derived from 'immovable property situated in Malta'. This is reduced to **5/7ths (effective 10%)** for royalties and/or profits taxed at between 0-5% elsewhere in the world. This is on top of a participation exemption rule exempting profits derived from subsidiaries in which a Maltese company has a 10% or more. Malta is, however, more transparent than other EU havens such as Switzerland or Luxembourg, which may explain why it is less popular with the banking sector.

National Grid

Methodist Shares (2013): 360,000
Value of holding (2013): £555,000
Tax Haven subsidiaries: 93/309 (30.10%)

National Grid Finance Director Andrew Bonfield is also Chairman of the Tax Committee for the Hundred Group, a body made up of FTSE 100 Finance Directors representing the interests of large UK businesses. The group have tentatively supported government anti-avoidance measures, but also campaigned for a more lenient definition of tax avoidance schemes in the General Anti-Abuse Rule. Bonfield has also stated that new transparency rules must be "developed, applied and enforced on a global basis to avoid the risk of regulatory arbitrage which will almost certainly disadvantage UK and EU companies[36]."

National Grid's substantial operations in the North East USA may go some way to explaining their 57 Delaware subsidiaries[37]. However, National Grid's US area of operations does not include Delaware. In 2006, National Grid bought KeySpan, a gas supplier for New York City, Massachusetts and New Hampshire. The subsidiaries KeySpan C.I. I and II Ltds are registered, along with four other subsidiaries, at Ugland House, George Town, Cayman Islands[38] - the offices of Maples and Calder, a law firm specialising in "advising financial, institutional and business clients around the world on the laws of the Cayman Islands, Ireland and the British Virgin Islands[39]".

National Grid has seven Luxembourg subsidiaries, six of which are numbered two through seven. NG Luxembourg 4 Sarl owns National Grid (US) Investments 2 Ltd. NGT Luxembourg One is registered in London but owned by National Grid Jersey Investments Ltd. More dubious numbered subsidiaries are owned by holding companies in Jersey (3, 17 and 19), Ireland (9), and the Netherlands (14). There are also holding companies relating to operations in India, Chile, Brazil and Poland in the Netherlands[37]. It seems fairly certain that National Grid are taking advantage of the Netherlands' asymmetrical tax treaties with countries in South America and Eastern Europe.

Methodist Shares (2013): 2,375,000
Value of holding (2013): £7,290,000
Tax Haven subsidiaries: 471/1069 (44.06%)

Barclays are among the most prolific users and proponents of tax haven usage in the FTSE 100. 183 of their tax haven subsidiaries are in Delaware, and a further 123 are in the Cayman Islands[40]. In 2012, Barclays were forced to pay HMRC £500m that it had kept out of government hands using two aggressive tax avoidance schemes[41]. It has also come under investigation by the German government for using a Luxembourg-based platform to generate more tax credit than they were paying in German corporate income tax between 2007-2010[42].

New CEO Antony Jenkins, on succeeding Bob Diamond, declared his predecessor's work 'unethical' and said he would be 'shredding his legacy'[43]. His first move was to close down the bank's controversial Structured Capital Markets unit, which gave customers advice on tax avoidance and prevented the collection of over £1bn in tax[44].

However, Mr Jenkins' efforts to clean up Barclays' image have clearly not extended to their 'Offshore Corporate' division[45] or their efforts to make themselves the 'go-to' bank in Africa - ActionAid's recent campaign revolves around Barclays' promoting the use of tax havens for investment in Africa, contributing to the massive amount of money that leaves the continent in illicit capital flows[46]. Mauritius is once again a key location in this set up. In its Offshore Corporate brochure for 2012/13[47], Barclays described the tiny island nation as 'the offshore centre of choice for India and the Sub-Saharan region'. In Africa, Barclays operate primarily under the Absa name. There are also two subsidiaries under this branding on the Isle of Man[40].

Barclays are also one of the greatest users of the Cayman Islands for forming investment companies. Many of their 123 subsidiaries, with names that give no indication of their purpose, are registered at Maples & Calder. Their office at Ugland House, George Town, Grand Cayman

is the building Barack Obama was referring to in the run-up to his election in 2008 when he said, "There's a building in the Cayman Islands that houses, supposedly, 12,000 U.S.A. based corporations. That's either the biggest building in the world or the biggest tax scam in the world, and we know which one it is.[48]" A similar strategy of creating investment companies with non-indicative names is used by Barclays in Luxembourg, where they have 31 subsidiaries.[40]

The Cayman Islands - the archetypal tax haven

Some countries that have been classified as tax havens try their utmost to make it appear otherwise - loopholes are hidden deep within complex tax laws. The Cayman Islands do not even try to hide their status as an Offshore Financial Centre - they trumpet it loudly and proudly on their website. There is absolutely no income or corporation tax payable at all in the Caymans[49]. The government levies import duty fees on everyday products, but not luxuries - so while the duty rate on fruits and vegetables ranges between 17-22%, items of jewellery , cameras and watches are duty free. The Caymans are truly a playground for the wealthy.

The infamous Ugland House.

Barclays' Offshore Corporate website, after warning the visitor that only large businesses or financial institutions should rely on the information found there, recommends six financial centres - Jersey, Guernsey, the Isle of Man, London, Switzerland and Cyprus. Barclays suggest to their clients that 'with double tax treaties with 40 other countries, Cyprus is an excellent location for holding companies or investment companies aiming at emerging markets.'[45] This is actively encouraging treaty shopping to deprive developing countries of tax revenues.

HSBC

Methodist Shares (2013): 2,915,000
Value of holding (2013): £21,320,000
Tax Haven subsidiaries: 350/1528 (22.91%)

The above figure of 350 is taken from the horse's mouth after MTJN and the ECCR asked Douglas Flint, HSBC's chairman, about its progress in reducing the use of tax havens at the 2014 AGM. However, since a more recent list of subsidiaries has not been published, we don't know what percentage of the current total number this reduced figure is. While this reduction from their previous figure of 496 is welcome, it is still only the first step. Furthermore, Mr Flint was worryingly unwilling to identify the Netherlands and Delaware as tax havens[50].

While a large proportion of HSBC's haven-based subsidiaries are in Delaware, many more are in Hong Kong, the historical home of HSBC, and some of their 80 subsidiaries here may well serve a genuine purpose. What is not so acceptable is their continued use of a plethora of Caribbean island havens such as the British Virgin Islands, Bermuda, the Caymans and the Bahamas. For example, quite why HSBC Services Japan Limited is based in Bermuda is anyone's guess. Like Barclays, these islands are also home to several randomly named investment companies such as Bermuda's Llandudno Investments Limited[51].

HSBC has been at the centre of a number of controversies regarding not just tax avoidance but also illegal practices. In 2013 it was fined $2bn by the US for money laundering for Mexican drug barons[52], and its Argentine subsidiary was accused of helping wealthy clients evade $66m in tax[53]. The bank was also accused of helping British taxpayers avoid $200m using a Swiss subsidiary[54] and allowing international fraudsters, drug dealers and the super rich to hide £699m across 4388 accounts in Jersey[55]. Until August 2013, Jersey was home to HSBC Banking International, the bank's tax planning branch - however, like Barclays, HSBC closed this branch as part of its public image clean-up operation[56]. The bank still has (as of 2013) 48 subsidiaries in Jersey and Guernsey combined[51].

The Channel Islands

Jersey and Guernsey are amongst the most well known tax havens, and their history in this regard is tied in to their links with the City of London. In the late 1950s, the Bank of England ruled that transactions undertaken by British banks on behalf of clients not located in the UK were not to be viewed as having taken place in the UK. The Euromarket also emerged at this time - an interbank financial market that, despite transactions taking place in London, is completely unregulated and therefore essentially offshore. These activities were extended to Jersey, Guernsey and the Isle of Man in the early 1960s. Both Jersey and Guernsey operate a '0/10' tax system in which all businesses are exempt from any corporation tax except for financial services, which pay 10%.

In 2012, the bank was accused of abusing the Netherlands' network of imbalanced tax treaties by establishing holding companies for many of its operations across Europe and Asia in the Netherlands. HMRC have been involved in what is now a long-running tax dispute which could involve sums of up to £3bn in unpaid tax[57].

HSBC's Cayman Islands subsidiaries include two which represent a 50:50 joint venture with Saudi Prince Al Waleed bin Talal bin Abdulaziz al Saud, to invest in sub-Saharan Africa. Each investor will supply 'up to $200m to promising businesses in the region'[58]. Presumably this is being done via the Cayman Islands so that HSBC and the Prince can get a tax free return on their investment while the Sub-Saharan nations in question lose out.

One less well-known player in the world tax avoidance game is Canada. Canada acts in a similar way to the Netherlands for companies wanting to get their money into North America via the Caribbean. Canada has a number of tax treaties with Caribbean island tax havens which are highly favourable to the latter, and therefore to companies with subsidiaries in those tax havens. HSBC Canada closed down its consumer wing and now focuses on 'Commercial Banking, Global Banking and Markets, and Retail Banking and Wealth Management.'[59] HSBC Canada is now a substantial enough operation that it submits its own annual report and accounts alongside those of HSBC Holdings plc. The fact that in 2013 there were 68 subsidiaries in Canada and the Caribbean combined should surely come under scrutiny.

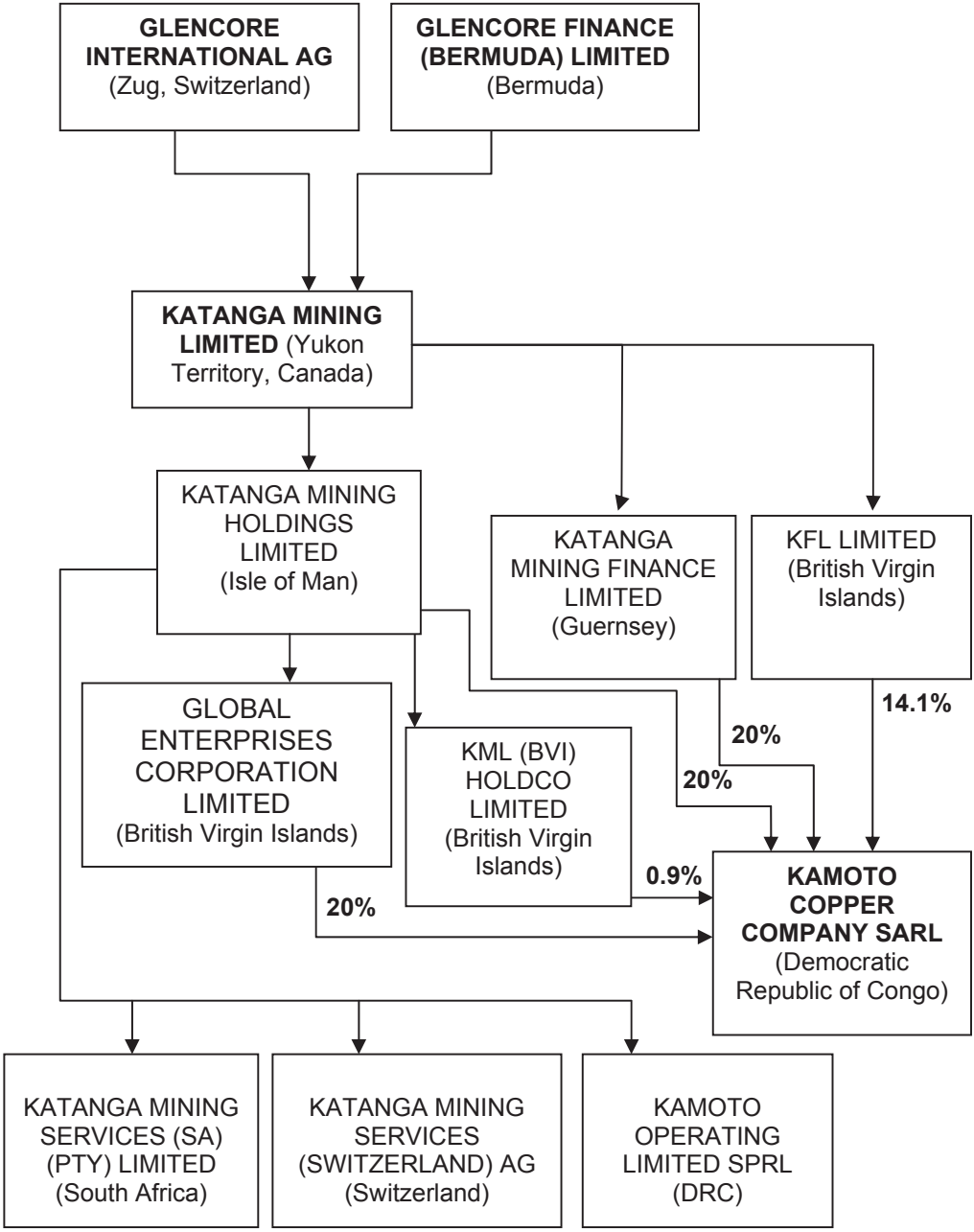
Methodist Shares (2013): 435,000
Value of holding (2013): £5,048,000
Tax Haven subsidiaries: Unknown

Since the 2013 merger of mining giants Glencore and Xstrata, no full list of both companies' consolidated subsidiaries has been published. Before the takeover, ActionAid counted just 18 tax haven subsidiaries, but this was only calculated using subsidiaries owned via the UK. Despite of all this confusion over figures, it is very clear that Glencore-Xstrata are among the least ethical corporations of all when it comes to tax. The corporation is headquartered in the Swiss canton of Zug, which offers a 0% cantonal tax rate and reductions on the 15% federal rate.

Glencore were the subject of worldwide condemnation when it was revealed that they had denied Zambia tax revenues on copper exported from the Mopani Mine. Profits were under-reported, costs such as machinery and transportation were over-priced and copper was exported at less-than-market value to Switzerland before being sold at above-market price to further Glencore subsidiaries. As a result, in 2006 Zambia made just $50m in tax revenue on copper exports, but spent $150m in paying Mopani's electricity bill, as stipulated in Glencore's deal to buy Mopani from the government in 2000. Switzerland's copper export tax revenue was double Zambia's entire GDP[61].

Looking at the list of principal subsidiaries published in Glencore-Xstrata's first financial results[62] since the takeover, there are a few that particularly stand out. Glencore Finance (Bermuda) Ltd and Glencore Exploration EG Ltd are both taxed at Bermuda's 0% corporate tax, withholding and capital gains rates. Their wholly owned shipping company, Topley Corporation, is registered in the British Virgin Islands - perfectly situated to shift profits overseas as 'transportation costs' and then pay 0% tax. But even these pale in comparison to the complex arrangement of subsidiaries that surrounds Glencore-Xstrata's operations in the Democratic Republic of Congo, the Katanga Mining Company, which is shown in the diagram overleaf:

Ownership of Kamoto Copper Company Sarl



This diagram shows that ownership of Kamoto Copper Company in the Democratic Republic of Congo is split between five companies based across the British Virgin Islands, Guernsey and the Isle of Man - all British Overseas Territories. These are, in turn, all ultimately owned by Katanga Mining Limited in Yukon Territory, Canada. 100% of the copper produced by Kamoto has to be sold to Glencore. Glencore Finance (Bermuda) Limited supplies large loans to Kamoto in the DRC, the interest on which is then paid back to Bermuda and taxed at 0%[63]. Canada, home to three quarters of the world's mining companies, offers the favourable rates of the Toronto Stock Exchange, a tax exemption for income trusts that are not substantially based in Canada and, in Yukon territory specifically, a 2.5% tax rate on 'Manufacturing and Processing' companies[64].

In case that wasn't bad enough, Canada's tax treaties with Bermuda, the Isle of Man and Guernsey mean that all dividends moved to Canada are taxed in the low-rate jurisdictions. A similar deal is currently being negotiated with the British Virgin Islands[65]. The South African and Swiss 'Mining Services' companies, also owned by the Isle of Man holding company, may well charge Kamoto with further fees. The eventual outcome of this system is that profits are siphoned out of the DRC and eventually end up, untaxed, in Canada or Switzerland.

In May 2014 Christian Aid issued a new report ***FTSEcrecy: the culture of concealment throughout the FTSE****. This showed that investment and finance (37%), banks (28%) and mining (19%) have the highest percentage of subsidiaries in highly secretive jurisdictions). It said all jurisdictions should require companies registered in their territory to submit annual accounts, the OECD and G20 should ensure their Base Erosion and Profit Shifting Plan (BEPS) delivers transparency, including country-by-country reporting, the EU and G20 governments should establish public registers of the beneficial owners of all trusts, and the UK Government should ensure free access to company accounts, both in the UK and in the Crown Dependencies.*

Tax Justice - Why Now and Why Us?

The tax justice campaign has seen a huge increase in media exposure and public support over the last two years, thanks to a number of highly publicised tax avoidance scandals surrounding high profile companies and individuals. Starbucks, Amazon, Google, Apple and Cadbury are among the many companies exposed as tax dodgers by the mainstream press, as well as individuals such as Gary Barlow, Jimmy Carr and Lionel Messi who have been reported a taking part in schemes to hide their money in tax havens.

However, these stories only scratch the surface of the extent to which tax avoidance damages countries worldwide. Christian Aid have estimated that developing countries lose **$160bn annually** to tax avoidance. According to Oxfam, Africa alone loses **£63bn per year** to illicit offshore cash flows, including tax dodging. Furthermore, the Tax Justice Network have calculated that as much as **$32 trillion** may be sitting untaxed in 'secrecy jurisdictions' (the formal term for tax havens), and the total discovered keeps rising.

During the course of the research that has gone into this paper, it has been shown that large, UK-based companies in which the Methodist Church invests have been engaging in tax avoidance schemes which affect both the UK and developing countries alike.

The tax justice campaign has been gathering pace, and we as a Church are now in a unique position to keep this momentum going. **As an organisation**, we could be a powerful voice in the fight for tax justice, **calling for changes to international tax policy** so that companies can no longer play the system; **as individuals**, we have the potential to create **a strong grassroots movement** throughout the Connexion and, via our Partner Churches, around the world; and **as shareholders**, we must take this opportunity to **tell these companies** that - while their actions may be legal - **morally they are wholly unacceptable**.

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The Methodist Tax Justice Network

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Further reading:
Tax for the Common Good, Christian Aid, October 2014
FTSEcrecy, Christian Aid, May 2014
How Tax Havens Plunder The Poor, ActionAid, May 2013

Further useful websites:
Christian Aid - http://www.christianaid.org.uk/
Tax Justice Network - http://www.taxjustice.net/
ActionAid - http://www.actionaid.org.uk/