tax justice network

STATE RESPONSIBILITY FOR THE IMPACT OF DOMESTIC AND EXTRATERRITORIAL TAX ABUSE ON WOMEN:

NEW ZEALAND

Background Memorandum

Submission to the
Committee on the Elimination of Discrimination against Women
70th Session
Geneva
July 2-20, 2018

pertaining to the Eighth periodic report submitted by
New Zealand

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I EXECUTIVE SUMMARY AND PROPOSED QUESTIONS

This background memorandum outlines how New Zealand's domestic entity and tax laws, combined with extremely low or zero tax rates for selected items, particularly for trusts and for multinational corporations that can take advantage of profit shifting accounting practices, jeopardize women's human and gender equality rights in New Zealand (i) at the domestic level, particularly with respect to women and Indigenous communities, (ii) as an 'upstream' country from which untaxed profits and productive assets are funneled through and to countries that tax accumulated aftertax incomes very lightly, and (iii) as a source of lightly or untaxed incomes channelled from 'downstream' countries to other low or zero tax rate jurisdictions.

This first section of this memorandum provides an overview of the context within which domestic entity and tax laws can affect women in New Zealand and in other countries that are involved in business and financial practices and flows, and poses key questions that may help assess the State party's progress toward reducing the negative effects its legal, financial, and fiscal policies have on the status of women in New Zealand, as well as on women in other countries affected by the domestic and extraterritorial impact of New Zealand's laws. The remaining sections provide detailed background information on how these laws affect women and other vulnerable groups.

Overview of concerns about New Zealand's Tax and Disclosure Laws

As financial, corporate, trust, production, and development activities have become increasingly transnational, tax cuts and tax reduction policies have been used by countries at all levels of development to attract foreign investment and increase GDP growth. Corporate operations and private capital are increasingly quick to follow paths to the lowest levels of taxes and the highest levels of financial secrecy. Concentrating low-taxed corporate and private capital in the hands of large corporations and high net worth individuals and entities contributes to increasing income inequality, both within and between countries.[1] Because women are concentrated in lower income groups and have much less ownership and authority in relation to corporations, capital, finance, and governance, tax avoidance also makes it even more difficult to reduce gender income and wealth gaps and gender inequalities generally.[2]

By population, New Zealand is about the size of Ireland and Costa Rica, but ranks in the top 20% of GDP, somewhat lower than Ireland.[3] It is presently ranked 58th on the Financial Secrecy Index, is classed as having only a 'small' share of the global offshore financial services market, has responded to pressure to close trust tax evasion loopholes, may still be vulnerable to tax abuse via its foreign trust laws,[4] and has recently been found to be losing substantial amounts of revenue via profit shifting and diversion of aftertax profits to tax haven countries.[5]

In November 2017, the United Nations Committee on the Elimination of Discrimination against Women (CEDAW Committee) requested that New Zealand provide additional information on material provided in its Eighth periodic report on economic challenges faced by women, single mothers, Indigenous women, and other socioeconomically disadvantaged groups; budgetary allocations for its national gender equality action plan, gender budgeting, and national machinery; and data capable of monitoring progress on all relevant equality issues.[6]

The State party responded to the CEDAW Committee requests when filing its Apr. 16, 2018 Addendum to its Eighth periodic report to the Committee. In that document, it outlined budgetary allocations for gender-specific programs, as well as for general programs from which women would benefit, and outlays for a major pay equity award settlement:

> **Gender-specific programs:** $1.6 billion for programs designed to benefit women for periods of one to eight years in duration, the largest of which were $1.4 billion allocated to addressing family violence in 2016, and $101 million to provide an additional 9,000 childcare spaces between 2009/10 and 2016/17.[7]
> **General programs:** $1.4 billion for programs available to all adults; no information on the numbers of women vs men benefitting from these programs was provided.[8]
> **Pay equity settlement:** $2 billion in settlement awards to 55,000 women affected by pay discrimination, an average settlement of $36,360 per worker.[9]

In March 2018, the Global Forum on Transparency and Exchange of Information for Tax Purposes published its second round peer review report on exchange of information on request (EOIR) for New Zealand. Overall, it found the State party to be performing well and ranked it as compliant. However, it did note that it needs to make ownership and identity information more fully available in order to be rated as being fully compliant with the EOIR standards. Thus, the Global Forum recommended that the State party take action when implementing its new tax disclosure and identification rules to ensure that 'beneficial ownership information is available for all legal entities and partnerships,' and that its new rules regarding identification of all those receiving trustee and nominee services and tax reporting requirements for offshore persons are adequately implemented.[10]

During the last two years, however, serious concerns about transnational corporate tax base erosion and profit shifting (BEPS) and residency-by-investment practices in the State party have also arisen. Thus other concerns regarding tax policies are whether the State party's current antiavoidance and financial disclosure rules can protect it from loss of revenues from BEPS and investment preferences, which presently endanger its ability to generate tax revenues sufficient to meet its obligations to promote gender equality for all women in New Zealand.[11]

Consistent with the CEDAW Committee's recommendations to Luxembourg[12] and Switzerland[13] regarding CEDAW Article 2 and the Committee's 2010 General Recommendation No. 28 on the Core Obligations of States Parties, this memorandum outlines information suggesting that New Zealand should receive recommendations similar to those made to Luxembourg and Switzerland involving the following steps:

> Undertake independent, participatory and periodic impact assessments of the domestic and extraterritorial effects of its financial secrecy, trust, and tax laws and commercial activities, on women's rights and the substantive equality of women and men in affected States, ensuring that those assessments are conducted impartially, with public disclosure of the methodology used and the findings, and further reviewing its corporate, trust, financial, and tax legislation, policies, and practices with a view to compliance with women's enjoyment of their rights, domestically and abroad, under the Convention.

Questions on the Gender Impact of New Zealand's Tax and Financial Laws

1. What steps has the State party taken to implement the recommendations of the Global Forum on Transparency and Exchange of Information for Tax Purposes that the State party take action when implementing its new tax disclosure and identification rules to ensure that 'beneficial ownership information is available for all legal entities and partnerships,' and that its new rules regarding identification of all those receiving trustee and nominee services and tax reporting for offshore persons are implemented?

2. Can the Committee be provided with a detailed update on the status, timelines, and copies of all Government action plans, reports, draft legislation, and schedule of consultations and steps to implement tax, entity, and public disclosure measures to implement the Global Forum's requirements to become fully compliant with its standards by 2019?

3. What is the State party doing to prevent all trusts created under either New Zealand domestic or foreign law and managed by New Zealand trustees from being used to engage in illicit activities, and to determine why most of the existing New Zealand Foreign Trusts (NZFTs) that were required to reregister after new transparency rules became applicable decided not to reregister under the new rules?

4. When will New Zealand establish a public trust registry and a public beneficial ownership registry of all companies, partnerships, and other legal entities, following the model of the European Union's 5th Anti-Money Laundering Directive?

5. Once New Zealand implements Automatic Exchange of Information in 2018 under the OECD's Common Reporting Standard (CRS), will it also publish automatic exchange of information data (as the case of Australia[14]) or using the Tax Justice Network's template for CRS statistics[15]), indicating total value of deposits held by nonresidents in NZ financial institutions, by account holder country of origin and by NZ residents in other countries, to enable non-CRS countries combat illicit financial flows and capital flight?

6. Given the ease with which base erosion and profit shifting (BEPS) can be used to reduce domestic taxes, can the State party commit to increasing its tax audit and enforcement capacity for the purpose of monitoring all multinational corporate accounts?

7. What steps has the State party implemented to restore cuts to domestic budget spending and tax rates that have been made since 2000, secure revenues adequate to meet the needs of women, and introduce gender budgeting laws and procedures together with gender disaggregated data to benchmark and monitor the impact of its tax, spending, and budgetary practices on the economic status of women in New Zealand?

8. Given the negative impact of tax avoidance and illicit financial flows on national and developing country revenues, when will the State party undertake detailed study of the gender impact of the financial secrecy, tax, and investment laws applied to NZFTs, multinational corporate profit shifting, and residency-by-investment on women in New Zealand and other countries, particularly women in low income countries?

II NEW ZEALAND LAWS FACILITATE TAX AVOIDANCE

New Zealand's domestic tax rates have fallen consistently over time as it has entered into global tax competition for reduced domestic tax rates. This alone has gradually limited its capacity to fund social development and gender equality at adequate levels.

Internationally, however, despite the State party's cooperation in global efforts to counter corporate and investment tax avoidance, late tightening of financial identification and disclosure rules has left the State party inadequately equipped to counter transnational tax avoidance strategies. Recent reform of the New Zealand foreign trust rules (NZFT) to reduce their use in avoiding taxation does not appear to have resulted in full disclosure of all NZFT activities, and revenue losses due to multinational corporate base erosion and profit shifting practices (BEPS) as well as from residency and citizenship-by-investment programs appear to be increasing in recent years. Revenue lost to use of the NZFT is estimated at $1.35 annually[16]; losses from BEPS, at $490 million from just 20 firms in 2015[17]; and losses from residency/citizenship-by-investment, at least $10-20 million in 2016. In addition, compared with other countries at similar levels of development, its audit rates appear to be low.[18]

As discussed in section III below, these features of the State party's tax, entity, and financial transparency laws have constrained its ability to generate sufficient budgetary revenues to promote gender equality consistent with its treaty obligations under the Convention.

Tax Rates

Until the late 1980s, New Zealand had a robust set of direct **personal and corporate income tax rates** (PIT and CIT). The top personal income tax rate, payable by those with the greatest ability to pay taxes, was 66%, and the corporate income tax rate was 48%. Responding to global tax competition, however, the State party cut the top PIT rate to 39% in 2000, and then to 33% in 2010. During the same period, the top CIT rate was cut first to 30% and then to 28%.[19]

New Zealand CIT revenues are further reduced due to its **corporate tax imputation rules**, whereby corporate taxes paid are considered to be paid in advance on behalf of the shareholders who ultimately receive dividends out of corporate profits. CIT revenues are used to provide dividend tax credits for shareholders, which can reduce shareholder PIT on dividend incomes substantially. Thus, net CIT revenues are effectively much lower than they might appear in statements of annual revenues, due to this refund feature. Intercorporate dividends are also generally tax exempt.[20]

Very few **taxes on capital** are collected in New Zealand. Capital gains on the sale of land and other assets are not included in taxable income, and land taxes on the value of land were abolished in 1992.[21] The only exceptions to the nontaxation of capital are the property taxes payable to municipalities by owners of real estate.

Cuts to the tax rates applied to top personal incomes, corporate profits, and corporate shares have however been offset by increased **taxation of individual and household consumption** via the Goods and Services Tax (GST, also known as VAT). Although the VAT is collected by

businesses in manufacturing, production, and retail chains, the VAT is purely a tax on end-point private individual and household consumption. Using flat rates rather than graduated rates like the PIT, the New Zealand 5% sales tax was originally replaced with a 10% tax on both goods and services – a rate that has already been increased twice: first to 12.5% in 2007, and most recently to 15% in 2010.[22] The New Zealand GST is regressive in incidence because it burdens those with low incomes more heavily than those with moderate and high incomes. In addition, it is even more burdensome to those with low incomes in New Zealand, however, because its tax base is more comprehensive in scope than in most other countries with the VAT or GST.

There are also other institutional features of the New Zealand taxation system that reduce revenues. Participation in the social security system is optional at the choice of employees. Thus, those with low earnings are vulnerable to opting out of paying **social security taxes**.

The combined effects of the PIT, CIT, and GST changes in New Zealand have markedly reduced its **tax ratio**, which measures tax revenues as a percentage of GDP. In 2006, New Zealand's tax ratio was 36.06%. By 2016, its tax ratio had fallen to 32.08%, and its 2009-2016 average tax ratio was only 31.45%.[23] This loss in total revenues, which averages out to 4.61% annually over the ten year period, is substantial. Using total 2016-17 tax revenues of $75.6 billion as the point of reference, total tax cuts since 2006 deprived the State party in 2016-17 of an additional $3.49 billion in revenue that it would otherwise have received.

The New Zealand Foreign Trust (NZFT)

The use of New Zealand foreign trusts in tax avoidance schemes was publicized in the Panama Papers.[24] The NZFT can be formed by non-resident settlors for non-resident beneficiaries, to hold foreign source incomes and assets, without tax liability to the New Zealand government. Therefore, the NZFT was subject to abuse because there was no risk that the trustee could be forced to disclose information about the parties or assets to New Zealand tax authorities. According to Knobel, the only disclosure required before the new transparency rules were enacted was 'the name of the trust, the name and contact details of the New Zealand trustee, and whether the settlor of the trust is Australian.'[25] The latter point was required by agreement with the Australian Tax Office re the NZFT long before the Panama Papers were released.[26]

In response to the involvement of New Zealand trusts in the Panama Papers, the Government established an expert inquiry into the use of the NZFT. In following the recommendations of the report, the trust law was amended to require detailed disclosure and recordkeeping, maintenance of a searchable trust register, annual tax and information returns, and continued tax exemption of foreign trusts only when in compliance with all new regulations.[27]

Including professionals and businesses associated with money laundering in the new legal rules, however, is not complete. Lawyers, conveyancers, and trust and financial services businesses will become subject to anti-money laundering laws on July 1, 2018, but inclusion of accountants, real estate agents, the Racing Board, and sales of high value goods will not be complete until Aug. 1, 2019.[28] In the meantime, some countries can use either the automatic or 'on request' exchange of information agreements to gain disclosure from New Zealand in September 2018.[29]

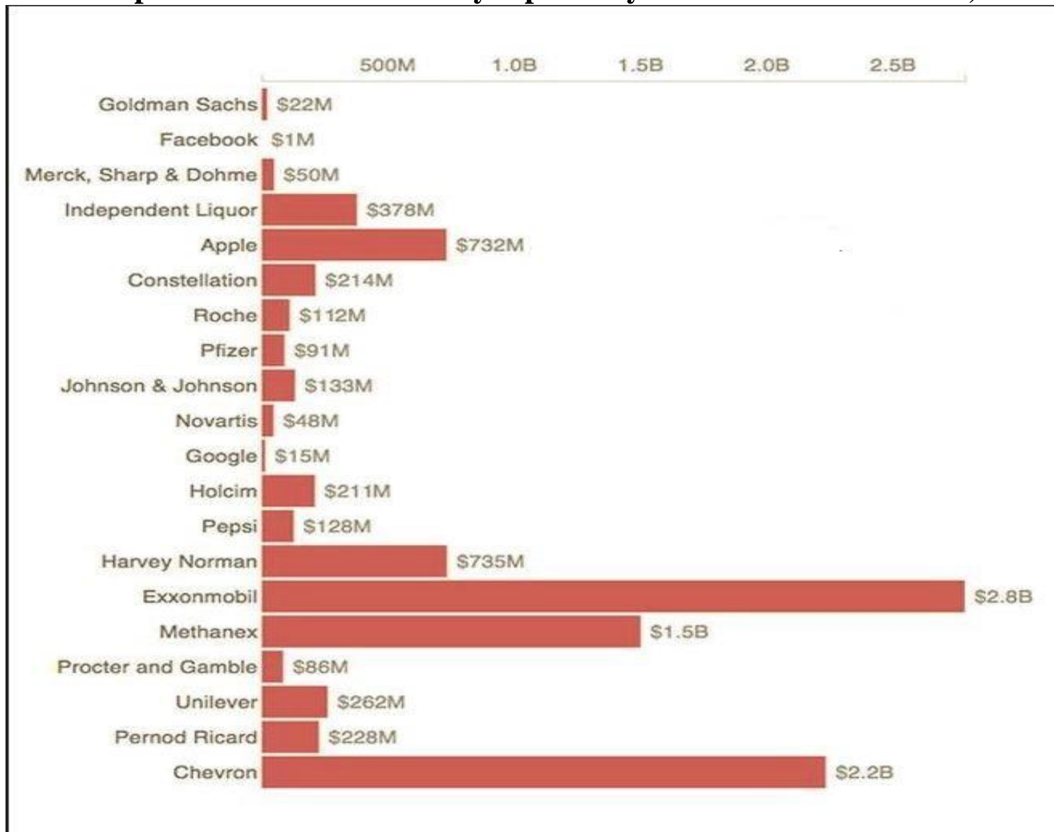
The NZFT reforms do not solve all the tax avoidance problems that this vehicle causes. Knobel suggests that trusts using nominees to disguise the true owners of trust assets may not be discoverable even under enhanced trustee verification rules, and that automatic exchange of information may not cover NZFTs that hold assets and bank accounts in countries not involved in the OECD Common Reporting Standard for exchanges of information.[30] Thus, the longer it takes to extend the AEIO and EIOR systems to cover all countries, the longer these opportunities will continue to be exploited. At the very least, New Zealand should establish public beneficial ownership registries for all trusts governed or created according to its laws, and for all trusts governed or created under foreign country managed by a trustee resident in New Zealand.

Base Erosion and Profit Shifting (BEPS)

Publicity has also focused on the extent to which multinational companies selling goods and services in New Zealand are shifting local profits to low or no tax countries through accounting methods. For example, multinational companies with high operating costs can assign them to New Zealand operations to reduce total taxable profits taxed there, thus reducing taxes payable.[31]

The *Herald* published the results of an investigation showing that the $9.8 billion revenues on which 20 New Zealand subsidiaries of multinational companies, paid ‘virtually no income tax’ in 2015. If these branches had reported the same level of profits as their parent companies, they would have paid total taxes of nearly $490 million that year.

Profits reported to New Zealand by top twenty multinational branches, 2015[32]



As reported, the 20 companies in the above table were found to have made profits of just 1.3% (on average) on all their business activities reportable in New Zealand. This was done by shifting disproportionate shares of their multinational operating costs, losses, and other charges to their New Zealand operations, thus shrinking their total profits arising from New Zealand business activities. In contrast, the parent companies of these New Zealand branches made an average of 20% profits on their overall global operations.[33]

As with the NZFT, the New Zealand Government has initiated legislation to reduce the scope for BEPS tax maneuvers, scheduled to come into effect after Jul. 1, 2018.[34] This legislation, which is admitted to be difficult to interpret and apply, will counter tax jurisdiction 'mismatch' rules that are used to allocate costs and revenues to the country in which they wish to optimize tax reduction opportunities, and will permit national governments to apply their own definitions of 'permanent establishments' to the interpretation of tax treaties.

Several other provisions of the new regulatory regime will address transfer pricing abuses, interest limitation rules, and applicable penalties.[35] The hope is that these new rules will enable New Zealand to attribute more profits to domestic operations subject to income taxation within its jurisdiction, and prevent multinational companies from shifting business profits out of New Zealand to head office countries that have extremely low or zero corporate tax rates.

Residency and Citizenship by Investment

New Zealand has a residency-by-investment scheme that allows investors to obtain special residency visas if they invest at least US$2.1 million over a four year period. During the last three years of the four year investment period, they need only be physically residing in New Zealand for 146 days per year in the last three years, or for a total of 438 days over the four year period. Investing at least US$6.9 million reduces the investment period to three years, and the numbers of days of physical residence to 44 days/last two years or a total of 88 days over the three year period.[36]

Citizenship-by-investment is also apparently available in special cases, such as that of the US millionaire Peter Theil. In that situation, Theil was able to partner his business with a New Zealand government venture investment fund, followed by a buy-back of the fund's interests that gave him all its accumulated profits. His investment was NZ$6.8 million (43% of the total $15.8 million invested), but he ended the process with an investment worth NZ$30 million (75% of the gross) and a net gain of $23.2 million (95% of the total net gain). The fund originally invested NZ$9 million (57% of the total $40.2 million invested) and ended with a net investment worth NZ$10.2 million for just 5% of the net gain.[37]

III GENDER AND BUDGETARY EFFECTS OF NEW ZEALAND'S TAX AND DISCLOSURE LAWS

New Zealand's tax rules governing multinational trusts and companies have a wide range of negative effects on women, low income groups, and Indigenous women, who face particularly challenging conditions. First, they reduce domestic revenues and force the Government to reduce budgetary spending on social and development issues. Second, when individuals and businesses are able to reduce taxes on profits and wealth at all stages of investment, production, and distribution of profits, revenue losses both upstream and downstream of countries like New Zealand further contribute to the erosion of revenues in those jurisdictions as well.

Gender Impact on Women in New Zealand

Countries that cut their overall tax revenues usually do so not because they have plentiful revenues already, but in response to growing international tax competition for corporate investment and to attempt to benefit their financial services sectors. 'Taxing for growth' policies shift tax burdens from capital to labour and to private households, and tend to ignore women s needs when designing public services. And, when the expenditure policies also fail to grapple with the key socioeconomic drivers of aftertax income inequalities, even what gender-specific spending that may remain in the budget will not be able to counter the powerful effects of traditional gender stereotyping and other social effects on the status of women.

Gender impact of long-term decline in tax ratios:

Falling tax ratios make it extremely difficult for countries to meet their CEDAW obligations to promote gender equality. As 'taxing for growth' policy thinking gained acceptance, most of the countries ranked as having the highest levels of both human and gender development all fell markedly in the UN indices that track these measures. For example, Canada, which was ranked at having the very highest levels of both human and gender development between 1996 and 1999, had cut its tax ratio by 4.1% between 1996 and 2015. During the period between 2000 and 2013, it fell from #1 to #9 in relation to human development, and from #1 to #18 in relation to gender.[38] The accompanying budget cuts to public services and programs essential to promoting gender equality became severely underfunded during that period in time.

While New Zealand began the period from 1995 ranked only 17th on the Human Development Index, it actually ranked higher – at 12th -- on the Gender Development Index at that time. This indicates that policies aimed at promoting gender equality were effectively prioritized.[39]

As the State party intensified its own tax cut regime in 2000, and as its NZFT and BEPS policies began to impair national revenues, it continued to improve its HDI ranking, which reached 6th in 2013, but then fell to 13th in the 2016 *Report*.

However, the impact of tax ratios on gender equality initiatives in New Zealand began to become apparent even as overall human development stayed high. As early as 2006, New Zealand began to fall in its GDI rankings -- first to 20th in 2006, and then to 31st in 2013. During that period, its tax ratio remained on average 4.61% lower than it had been in 2006.[40]

Changes in the method of ranking countries in the GDI in the 2016 UN *Human Development Report* lack the same precision as earlier rankings used in that index. Nonetheless, the revised 2016 GDI ranking method continues to confirm that the State party is still not focusing enough attention or resources on improving the status of women – no doubt in part due to continuing low levels of tax revenues. Instead of giving each country a separate GDI ranking (subject to occasional ties), all countries in the 2016 Report were assigned to one of five GDI groups depending on the degree of standard deviation between gender parity results for men and women on the relevant indicators. Thus in the 2016 *Report*, New Zealand was ranked 13th on the HDI, but was assigned to group 2 on the basis of gender development indicators.[41]

New Zealand's GDI group 2 status in the 2016 *Report* should cause considerable concern regarding the status of women. Forty-two countries were ranked as falling into GDI group 1 in the revised GDI scale, and 43 countries were placed in group 2. That means that compared with other countries, New Zealand now falls somewhere between 43rd and 85th highest on the GDI – a very long fall from its 1995 ranking of 12th. Further, that latest ranking should be seen as either significant or alarming compared with its ranking of 31 in 2013, depending on exactly where in the range between 43rd and 85th New Zealand actually falls in the calibration of that index.[42]

The UN Gender Inequality Index (GII), which was only included in the annual *Report* recently, confirms the deterioration in gender equality in New Zealand that is revealed by its GDI rankings. In the 2011 *Human Development Report*, the State party was ranked 5th highest on the HDI -- but was ranked 32nd on the GII.[43] In the 2016 *Report*, when it had fallen to 13th on the HDI, it was then down even further on the GII -- to 34th.[44]

Failure to mainstream and prioritize gender equality in public budgets:
The State party has by no means ignored gender equality issues. Its Eighth Periodic Report to the CEDAW Committee details gender-specific budgetary commitments amounting to at least $1.6 billion over periods ranging from one to eight years. However, nearly the same amount was outlined as having been allocated to general programs, with no information on their gender distribution between women and men. And only $101 million during the period 2009/10 through 2016/17 had been allocated to adding 9,000 new childcare spaces during that time.[45]

One of the most fundamental drivers of women's socioeconomic inequality worldwide is women's persistently heavy unpaid work burdens. Globally, women spend on average 250% more time in unpaid work than men,[46] literally leaving women with much less time and energy to engage in paid work than men. As a result, the average gender pay gap is 24%, because despite advances in women's education and political representation, lack of time and energy to engage in paid work and to earn adequate incomes keeps women economically disadvantaged everywhere.[47] Even women who have been able to attain equal pay and equal access to all occupation classes still have to pay for childcare and household services to free their time from unpaid work responsibilities, costs typically not borne by many men. Lower revenues mean fewer public services women need.

These economic gender gaps are not closing – they are actually increasing in size. In its 2016 Global Gender Gap report, the World Economic Forum estimated that overall global gender gaps would be closed in 83 years; in its 2017 report, that estimate was changed to 100 years. The most

intractable of the gender gaps are economic; the WEF estimated in 2017 that global economic gender gaps will not be closed for another 217 years.[48]

Data on time use by gender in New Zealand make it very clear that the State party has not yet been able to devise legal and/or spending policies capable of freeing women from heavy burdens of unpaid work despite their paid work aspirations. In the two most recent reports on time use in New Zealand, covering the periods 1998-99 and 2009-10, women's shares of unpaid work have remained virtually unchanged. In 1998-99, women were found to perform 64.4% of all unpaid work, as compared with 35.6% by men. In 2009-10, those figures were 63.7% and 36.3%.

At the same time, however, women's hours of paid work time increased from 35% to 36% over the decade, indicating that while their unpaid work hours fell by just 0.7%, their paid work hours increased by a full 1.0%, increasing their total workload per year in the process.[49]

Clearly it is unfair to leave it to women to increase the time they devote to paid work by more than the time they are freed from their heavy unpaid work burdens. And clearly it is also discriminatory to enable men to rely on women's unpaid work and underpaid paid work to free men from heavy unpaid care work burdens – while leaving men with higher incomes and women with no public services capable of freeing equal time for paid work for them too.

Spending $101 million over the period 2009/10 to 2016/17 to add 9,000 new childcare spaces has not done nearly enough to address this, the most fundamental factor keeping women in conditions of economic inequality on the basis of available work time and wage rates.

At the same time that New Zealand appears to be underfunding care resources due to inadequate revenues, it is continues to have **tax provisions that create hidden tax barriers to women's paid work**. The structure of the income splitting credit, family credits, and in-work tax credits, which do not provide care resources enabling all spouses and parents to engage in paid work fulltime, function to treat women as the default caregivers for spouses and parents who do engage in fulltime paid work – and those spouses and parents whose paid work is thus supported by such unpaid care work are disproportionately men.

Neither the plan to fund 9 hours of early childhood education subsidies for mothers qualifying for the in-work tax credit for paid work, or for 20 hours per week of early learning funding for children to age 3[50] are capable of freeing up enough time for women to be able to spend equal time in paid work throughout their lives. To spend equal time in paid work, women would have to be able to reduce their unpaid work time – a reduction of 27.3% of women's current unpaid work hours.

It is encouraging that recent pay equity settlements have benefited 55,000 women.[51] However, both employment equity and pay equality laws will have to be enacted and enforced in order to eliminate all existing gender pay gaps. These types of programs are costly, and need to be designed in active collaboration with civil society actors. However, programs that ensure that all pay gaps are closed would appear to exceed the budgetary resources of the State party given its current tax and tax avoidance structures.

Revenue shortfalls undercut State capacity to promote gender equality:
As the CEDAW Committee pointed out in addressing the fiscal impact of Switzerland's tax haven financial environment, all State parties require sufficient public funding to realize women's human rights and rights to substantive gender equality. Revenue shortfalls shrink public budgets for government programs ranging from health, education, and workplace programs, to income support and poverty reduction initiatives.

When revenue shortfalls result in spending cuts, they increasingly tend to disproportionately affect low-income populations, which are predominantly comprised of women, lead to chronic under-funding of key institutions and programs that promote substantive gender equality and combat gender-based violence, and reduce State capabilities of advancing women's rights to adequate and gender equal healthcare, paid work, childcare, eldercare, and political voice.

Although New Zealand has taken steps to cooperate in curbing abuse of its financial sector for tax planning purposes, the tax and spending cuts, plus the effects of the NZFTand BEPS, policies, which are only now being addressed by new legislation, are denying the country an estimated $3.49 billion in revenue, using total 2016-17 tax revenues of $75.6 billion as the point of reference.[52] In addition, the details of just one case – the Peter Theil citizenship-by-investment case – reveal further revenue losses. In that situation, the government investment fund could have ended its venture with Theil with an additional net gain of $12.7 million more than the $1.2 million it settled for. These sums could all have helped radically change the economic status of women in New Zealand in a short period of time.

Tax and entity laws exacerbate gender inequalities:
Discussions of the NZFTs in the wake of the Panama Papers and appropriate policy responses have revealed that the New Zealand legal and accounting professions have profited significantly from this form of economic development. Reports suggest that the legal profession alone has received between $24 and $40 million in legal fees while establishing and supporting NZFTs.[53]

This type of demand for legal services has of course supported the growth and development of the legal and related professions. Given the strong preponderance of men in senior positions in the legal and other professions in New Zealand,[54] however, these tax and trust policies have increased predominantly male incomes and wealth at the same time that government revenues have been impaired by the use of these entities. Taxes will of course be paid on the profits from these professional fees. Nonetheless, regardless of the applicable tax rates paid on such fees, such revenues would represent a very small fraction of total fees earned. And, these professional services fees are probably in the range of 0.5% (or less) of total trust assets. Thus tax revenues from legal fees will not compensate for loss of the tax revenues that ought to have been paid on trust revenues themselves.

In the meantime, equivalent support for industry sectors in which women predominate – including to meet care needs – has not been provided by tax policies or tax breaks that provide the same level of subsidy.

'Upstream' Gender Impact of New Zealand's Tax and Entity Laws

Tax and entity laws in a particular country can be described as having 'upstream' impact when they induce individuals or corporations to transfer assets, profits, or revenue streams from a high tax jurisdiction to a low or no tax jurisdiction. Upstream gender impact occurs when countries of origin thus lose tax revenues as their tax base is eroded by either legally or physically removing productive assets or activities from their original locations – such as Australia – to locations that can provide lower or no tax rates.

The two forms of New Zealand tax reduction discussed in this report, use of the NZFT and BEPS strategies, both have upstream gender effects, albeit in differing ways.

NZFT upstream gender effects:

Many countries that provide extremely low or zero tax rates for trust and selected business activities provide the same tax breaks for their own residents as they do for nonresidents.[55] This is uniquely not the case for the New Zealand foreign trust, which by definition is designed to provide benefits only to nonresident owners of assets or businesses. Residents cannot take advantage of this type of trust, unless they become nonresidents before setting up the trust.

Trusts can be established for many different reasons: to avoid creditors, frustrate matrimonial property and income support claims, circumvents inheritance rules, avoid regulatory restrictions; or avoid or minimize taxation. When the State party took steps to counter taxpayer use of the NZFT for tax reduction purposes, there were 11,750 registered trusts in existence. One of the restrictions place on continued use of this trust form was the requirement that all trusts be reregistered in compliance with the new rules by Jun. 30, 2017.[56] When fewer than 3,000 did register in time, and the other 8,750 either indicated that they would not reregister, or simply did not do so,[57] One commentator has suggested that at least some of the 8,750 that did not reregister under the new rules 'were being used for some purpose that depended upon the government of the settlor's home country (or perhaps some other country) not finding about it. That might have been tax avoidance or tax evasion, or perhaps money-laundering or concealing the proceeds of crime.'[58] It is also reported that no Australian NZFTs were reregistered.[59]

At this point, there is no precise measure of the total value of assets held in NZFTs as of the change in the law in late 2017. However, estimates have suggested that this figure is on the order of at least 'hundreds of billions' or more.[60] The largest number of foreign trusts appear to have been established by Australians seeking to avoid higher domestic tax rates. And so far as women living in Australia are concerned, stopping the loss of potential Australian tax revenues to NZFTs could result in a considerable increase in Australian revenues. The current Australia government has increased funding to support women's paid work, including with increased childcare subsidies. However, Australia does have a low tax ratio compared with other highly developed countries, and the economic status of women there has been impaired by those policies.[61] Thus ending its domestic revenue losses to the NZFT will no doubt improve that country's capacity to meet its domestic needs.

However, even the 3,000 NZFTs that have been reregistered under the new trust rules may very well still operate to harm women in other countries. Especially given the fact that New Zealand will only start exchanging information automatically in 2018 (but not all trusts or their assets will

be covered by the scope of the CRS[62]) , the NZFT can still be used to place significant barriers to women and dependents seeking access to separation, divorce, or inheritance assets located in offshore institutions, especially if they are also hidden behind additional layers of entities.[63]

BEPS upstream gender effects:
By structuring multinational corporate operations in New Zealand as branch operations, the head offices of those corporations are able to shift substantial amounts of taxable incomes out of New Zealand to head office locations. The amount of profit so shifted out of New Zealand is then taxed based on the applicable rates in any conduit and destination countries to which profits are shifted.

The domestic impact of base erosion and profit shifting is by its very nature difficult to measure accurately.[64] The estimate of New Zealand revenue losses suggest that the top twenty companies using BEPS strategies deprived it of some $490 million in revenues in 2015. This figure suggests that the total revenue lost when the BEPS arrangements used by all companies in New Zealand are taken into account, the total revenue losses will be even larger. In a country like New Zealand, in which progress toward gender equality is essentially stalled due to inadequate funding for gender equality measures, loss of this revenue is an additional drain that should be of concern.

But BEPS strategies also have a negative gender impact in other countries as well. Depending on the country to which profits have been shifted by New Zealand companies, it is entirely possible that women in conduit and destination countries will never benefit from the passage of that $2.2 billion through their tax systems either. For example, if the diverted revenues were first conduited through Cyprus, this could be done without any tax liability at all. And then, if the head office were located in Luxembourg, for example, depending on how the transmission is classified, it is possible that as little as 1% to 2.4% in further corporate income taxes would be paid there.[65]

In essence, BEPS strategies are being used to leave a small portion of actual in-country profits in the country of actual operations – but then further exploit the New Zealand domestic tax system by taking the bulk of many corporations' profits to low and zero tax systems in order to avoid further substantial taxation of any kind whatever. Women living in those jurisdictions thus also are deprived of the benefits of living in a country with bona fide tax laws, because the extremely small effective tax rates made available by countries such as Luxembourg are enriching their financial sectors, which facilitate such transactions, in exchange for receiving the full level of revenue such profits should bear.

Residency/citizenship-by-investment:
The total sums brought by overseas investors to New Zealand through its residency/citizenship programs over the years have been significant. During the period 2009-2015, a total of $939 million was invested in this manner in just the high-investment category ($10 million minimum per investor.) In 2016 alone, an additional $300 million was invested. These investments do not appear to be supporting the growth of the New Zealand economy through innovation, however. Only 6.58% of imported investment appears to have been in private equity, while 72% has been invested in corporate bonds and listed equities.[66]

Catering to the wealthy, these citizenship investment programs are proliferating globally, and creating new investment programs that offer returns not available to ordinary immigrants of average means.[67] Because women are underrepresented among the wealthy, they are also less able to benefit from these programs. Of even greater concern, however, these programs enable the wealthy to locate their transactions in countries like New Zealand in constructing tax- and benefit-driven wealth chains that can relocate their wealth from higher tax/lower investment benefit jurisdictions to accelerate wealth formation. Thus they contribute to the 'raiding' of the treasuries of their countries of origin at the same time.

'Downstream' Gender Impact of New Zealand's Entity and Tax Laws

Wealthy individuals and multinational businesses also make use of New Zealand's foreign trust and BEPS gaps by moving gains earned in business and illicit operations in 'downstream' countries 'up' through tax-driven global wealth chains involving New Zealand.[68] These tax avoidance processes are designed to take advantage of the unique advantages of different types of tax havens, and New Zealand is implicated when the search is for passive holding of business operations, personal incomes, shares, debt, intellectual property, or other assets in hard-to-discover locations. The entity of choice for this purpose appears to be the NZFT.

The Panama Papers brought to light numerous situations in which the NZFT was used for such purposes. For example, the Rothschild bank set up several trusts for Jho Low, a Malaysian, which held real estate and other assets in the US reported to have a total value of $265 million, as well as assets of undisclosed value located in Singapore Hong Kong, and the UK.[69] Other examples involving sports figures taking advantage of the NZFT.[70]

The full extent of the use of either NZFTs and/or BEPS strategies to reduce or avoid New Zealand income taxes, including capital gains, has not yet been determined. Nor is it yet determined whether the State party legislative initiatives have completely solved the problems posed by both. For example, production profits that originate in 'production tax havens' -- no or low tax countries or special economic zones (SEZs)[71] -- can be effectively insulated from taxation further along the global production chain by taking advantage of the NZFT and BEPS strategies, both of which offer 'upscaling' income and wealth accumulation tax avoidance mechanisms.

Offering tax shelters to profits originating in SEZs in particular contributes to gender inequalities at the production level. Historically, up to 90% of SEZ employees have been women, who work for lower wages,[72] and deprive the countries in which they operate an estimated 0.5% to 6% of GDP.[73] They reduce host country tax revenues, increase privatized corporate profits to mainly overseas owners, and often drive out local products via marketing rights obtained from their host countries. At the same time, SEZ workers are taxed domestically on their earnings – all of which burden women more than men in most locations, and, where women's wages do increase over time, men are seen as providing more value as employees.[74]

III Conclusions

Calibrating the actual gender impact of corporate and investment tax havens, tax avoidance, tax fraud, illicit financial flows, corporate business practices, and tax cuts/budgetary austerity regimes in every country is far from being complete at the present time. However, it is clear that countries that provide financial secrecy and legal tax reduction services to wealthy individuals and entities on the terms associated with the NZFT and due to profit shifting directly harm women living in New Zealand. In addition, New Zealand's trust and profit shifting standards substantively harm women and economically vulnerable populations living in countries affected by ‘upstream’ and ‘downstream’ investor, multinational, and investor operations designed to take advantage of its trust and corporate accounting laws:

- Tax shelter and secrecy laws harm women living in tax shelter countries by treating the fiscal needs of MNCs and wealthy investors as being more compelling than those of the women and all who need good governance, effective public programs, and revenues adequate to secure women’s rights and substantive gender equality;
- Tax shelter and secrecy laws harm women in countries that give up domestic tax revenues to businesses that take advantage of profit shifting strategies;
- Tax shelter and secrecy laws harm women in virtually all countries that reward multinational business and investment owners for seeking out the most vulnerable workers to work for the lowest possible pay under the least decent and sustainable working conditions in locations that also offer those businesses and investors further tax exemptions for operations inside their own borders; and
- All countries involved in any aspect of manufacturing and production, investment, management, or other types of commercial activities in and through tax havens and low- or no-tax zones or countries contribute to the increasingly rapid concentration of extreme wealth in the hands of small numbers of individuals at the same time that these tax haven and secrecy chains continue to allocate disproportionate shares of poverty and inequality to women and those living in low income countries.

Endnotes

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