Trust in a transparent approach

Judith Collins has become an enthusiastic campaigner against corruption. Stimulated by British Prime Minister David Cameron’s global jamboree in London on the subject, the minister of police wants action.

In particular, she says New Zealand might set up a public database showing who owns, controls and benefits from Kiwi companies. The register would reveal companies that had a history of bribery or corruption.

This is an excellent idea. The only question is: how does this fit with the Government’s attitude to foreign trusts?

It is exactly the lack of transparency of the trusts, according to the critics, which allows them to be used as tax havens and even money-laundering. If the Government wants transparency in the whole arena of companies, it should also want it for the trusts.

In fact, the Government seems to be moving exactly in that direction. Having initially dismissed the need for reform, Prime Minister John Key is now clearly saying changes could be made “if necessary”.

They clearly are necessary, and presumably even the review of the trusts by former PwC chairman John Shewan will signal mild reform. The least that can be done is to spread sunshine into areas where at present it doesn’t go.

Tax expert Deborah Russell says the IRD should collect standard financial information about the trusts, the names of the people who put assets into them, and the beneficiaries, and allow their disclosure. Just collecting the information would be enough to put a check on people using the trusts for “aggressive tax-minimisation purposes”. Quite.

There has been some publicity about the use of foreign trusts by overseas people of questionable reputation, although not by any well-known New Zealanders. The Government seems to have concluded that the political heat has largely gone out of the issue.

But former Corporate Lawyers Association president Ron Pol says it would be a mistake for journalists to conclude that the Panama Papers have been a “flop”. Kiwi residents aren’t using the foreign trusts for tax dodging, he points out, because they can’t. And foreigners who use them could be doing so not just to dodge tax but even for money-laundering.

New Zealand should take action to prevent the misuse of foreign trusts both because of the harm such actions could do but also to protect its reputation. We have recently slipped down the rankings of Transparency International’s perception of corruption index. The fuss over foreign tax trusts will do nothing to restore our standing.

And the campaign against international tax avoidance by the rich is expanding and proving deeply embarrassing for governments that give it mere lip-service. Britain’s David Cameron is embarrassed both because of his own family’s tax-minimisation activities and because of the City of London’s reputation as a money-laundering centre.

Stung by the critics, Cameron plans a public register of companies buying property in Britain.

Key should meet his foreign trust critics with a similar move to transparency.